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

The volatility of the start of the year continued in the second quarter as investors adjusted to a more persistent inflationary environment and socio-political turmoil in Europe showed no signs of ending. Despite aggressive central bank action, recession fears increased and fueled negative sentiment in all areas of the market. After eight consecutive quarters of positive returns, the S&P/TSX shifted into negative territory during the quarter with a broad-based downturn affecting all sectors. The strongest performing sectors during the quarter were Energy (-1.9%) and Utilities (-3.5%), with Health Care (-49.6%) and Information Technology (-30.7%) the biggest laggards.

Performance

In the second quarter of 2022, the strategy had an absolute return of -6.92%, whereas the S&P/TSX Composite Index had a return of -13.19%.

Among the leading contributors to performance over the quarter were CCL Industries and Dollarama. 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. Earlier in the year oil prices put upward pressure on the company’s input costs which negatively affected the stock but in the second quarter the company has shown their ability to pass on these cost increases to their clients and the stock rebounded as a result. 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 have been a trusted destination for consumers and their basic needs throughout the pandemic and the company has shown resiliency in managing inflationary and supply chain pressures.

Significant detractors over the quarter were TD Bank and Canadian Pacific Rail. TD Bank is a leading Canadian retail bank with a large and growing presence in the US. The company has a proven operating track record and a resilient, risk adverse culture led by an experienced management team. For the Canadian banking sector, in the short to medium term the current rising rate environment will benefit their net interest margins but increasing uncertainty and recession fears has put downward pressure on the stock over the last quarter. CP is a transcontinental railway providing freight and intermodal services over a network in Canada and the United States. The company operates in an industry with high barriers to entry that offers a more affordable and environmentally friendly transportation service than trucking. CP has a strong balance sheet, a demonstrated resiliency over time through good cost control, and a proven track record of wealth redistribution to shareholders. During the quarter, increased economic uncertainty and recession fears had a negative affect on the stock.

Major Transactions

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

Outlook

The portfolio continues to be composed of high-quality businesses that can withstand tough times. Even after this strong year, 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.