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 Canadian market saw more muted performance in the third quarter following the volatility experienced earlier in the year. Companies with strong pricing power performed well as they continued to manage inflationary pressure while interest rate sensitive companies lagged on the back of continued aggressive central bank action. After a 2-year period of consistent positive returns, the market posted its second consecutive negative return during the quarter. The strongest performing sectors were Industrials (4.2%) and Consumer Discretionary (4.2%), with Communication Services (-7.5%) and Real Estate (-6.4%) the biggest laggards.

Performance

In the third quarter of 2022, the strategy had an absolute return of 1.54%, whereas the S&P/TSX Composite Index had a return of -1.41%.

Among the leading contributors to performance over the quarter were Waste Connections and Intact Financial. Waste Connections provides non-hazardous solid waste collection services for commercial, industrial and residential customers. They have a structural focus on less competitive markets and their strategic ownership of landfill assets provides strong barriers to entry. In the current inflationary environment, the company has benefited from their pricing power and a portion of their contracted revenues being linked to CPI. Our investment in Intact was one of the largest positive contributors in the quarter. The company is the largest Property & Casual (P&C) Insurer in Canada, with significant scale advantages further enhanced by acquisitions over recent years. In the current rising interest environment, P&C carriers face increased product pricing challenges because the generally shorter-term nature of P&C policies means although they will be able to raise premiums to a certain extent, they'll need to rely more on underwriting efficiency and investment earnings to minimize any shortfalls between premium revenue and claims payouts. For Intact, as the largest P&C player in Canada, they have significant scale advantages including vast amounts of data that they use in customer pricing as well as a strong history of underwriting and investment discipline. This scale has allowed them to manage the current environment incredibly well and maintain organic growth across product lines.

Significant detractors over the quarter were Open Text and Toromont. Open Text develops enterprise information management (EIM) solutions, which enable companies to control and better utilize all forms of information. During the month of August, Open Text announced its acquisition of UK firm Micro Focus. Although aligned from a service perspective and offering a complementary client base, the deal will require Open Text to issue a significant amount of debt and there is some uncertainty in the market as to the future prospects of the combined business. In this context the stock was down during the quarter. We are continuing to gather information on the deal and there is no change to our thesis on the company at present. 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. During the quarter, increased concern that companies re-evaluate their capital expenditure budgets and timelines put negative pressure on the stock.

Major Transactions

During the quarter we did not add any new positions and we exited our position in Brookfield Asset Management Reinsurance Partners Ltd. The Company focuses on providing capital-based solutions to insurance and reinsurance companies. After receiving the shares via a dividend in 2021 we maintained a small position for a year but have now decided to exit in order to redeploy the capital to better opportunities within the portfolio.

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.