## Canadian Small Cap Equity

## Quarterly Commentary as of June 30, 2022

During the second quarter of 2022, all stock markets were affected by the sharp rise in inflation indicators and the acceleration of key rate hikes by central banks in order to curb inflation. This context prompted investors to reduce the level of risk in their portfolios, which is detrimental to Canadian small-cap equities.

Despite this difficult context, the portfolio fell less than the market. Our stock selection, made up of companies generally in a good position to withstand the effects of a possible slowdown in economic growth, was particularly beneficial.

Among the stocks that contributed to performance was Jamieson Wellness, recognized as a leader in the field of dietary supplements and vitamins. The company announced the acquisition of the American firm Nutrawise Health and Beauty. Jamieson's strong U. S. presence, complementary product line and excess manufacturing capacity will enable it to quickly capitalize on this acquisition.

One of our investments in the portfolio, the firm LifeWorks, was the subject of a takeover bid by the company Telus. This allowed us to sell this title at a good price. LifeWorks, formerly known as Morneau Shepell, was recognized for its employee health care management platform.

In addition, a new title was added to the portfolio. Secure Energy Services is a Canadian company specializing in the treatment, disposal and reclamation of oilfield waste. Its income is linked to the level of activity in the oil sector. However, the current level of prices should be maintained, which will support the volume of activity for Secure and its customers.

In addition to LifeWorks, sold following a takeover bid, we disposed of ARC Resources, whose price had risen sharply and reached the target set. In addition, we eliminated Badger Infrastructures from the portfolio following disappointing results. We also considered the business model too sensitive to the context of inflation and the scarcity of specialized labour.

The current context presents significant challenges for businesses. Supply chains remain problematic and modifying them by changing from an Asian supplier to a North American supplier generates additional costs. Supply difficulties also encourage companies to keep a larger inventory, which induces further additional costs.

We therefore remain cautious and continue to bet on companies capable of adapting to current challenges. They must have a solid balance sheet, a low level of indebtedness and occupy a leadership position in their industry. This last advantage makes it easier for them to pass on to their customers the cost increases they experience.

We are aware of the significant downside risks to economic growth in the coming year. However, we believe that the outlook is not as bleak as expected. We therefore intend to take advantage of the opportunities to buy at a good price offered by the marked drop in several quality stocks.