

Steadyhand

Q3
2021

“Is it time to raise cash? I encourage you to be guided by the purpose of the money as opposed to a hunch on where the market is going. You’ll make fewer unforced errors that way.”

— Tom Bradley, The National Post, September 25th



Bradley's Brief



The stock market had a pullback at the end of September. The turbulence, which has continued into October, is being blamed on all kinds of things: rising inflation, a real estate meltdown in China, and disappointing corporate profits related to supply chain disruptions and higher commodity prices.

The fact is, we never really know why markets rise or fall in the short term.

The current volatility should come as no surprise. After strong markets over the last 18 months, let alone 13 years, we were due for a reset. Rather, the real surprise is how smooth the market's rise has been since last April. Stocks have powered through COVID concerns and resisted emerging inflationary pressures.

Why has this happened? Well, it comes down to two factors: teamwork and interest rates.

First, stocks have been playing a team game, with different sectors and themes taking turns leading the way. In a golf match, it's called 'ham and egging'. Growth stocks (read: technology) have been the most dominant players, but when needed, the cyclicals (economic recovery) have stepped up.

The second factor is far more important. Low interest rates encourage risk taking and inflate asset values. The effect on long-term investments like real estate, long bonds and stocks is profound. In the case of stocks, which are valued on their future profits and dividends, the lower the discount rate, the more valuable the future is.

Unfortunately, declining interest rates have a one-time effect. It's wonderful owning an asset that is being revalued higher for reasons unrelated to its utility, but once the adjustment has been made, future growth falls back on the productivity of that asset. In other words, when rates stop going down, companies will need to rely on increasing revenues and profitability to move their stock price.

For most of our investing lives, it has been a series of one-time effects, starting in the early 1980's when interest rates were in the high teens and price-to-earnings (PE) multiples were barely double digit. For 40 years, rates have followed a declining step function to almost zero and PE's have moved up, albeit haltingly, to the low 20's.

This year, stock valuations have taken another step up even though interest rates have reversed course. The expansion in multiples has not been fueled by even lower rates but rather a growing acceptance that rates will stay near zero.

Our clients, and other investors holding long-term assets, have benefited tremendously from declining interest rates. Stock market corrections have been short-lived and returns well above inflation, but we should be prepared for tougher sledding ahead. Ham and egging is not a sustainable strategy and interest rates have limited room to go lower.

At Steadyhand, we're well positioned to slug it out in a tougher investment environment. We've never tried to get ahead of macro themes that might lead to multiple expansion (it's impossible to do consistently) but rather let our fund managers focus on finding reasonably priced companies that are growing their bottom lines. What has been a headwind for us in recent years, namely not having enough exposure to companies that are highly sensitive to interest rates, such as 'profits-in-the-distant-future' growth companies and real estate, could become a performance tailwind.



Key Takeaways

Stocks

- Stocks edged modestly higher in the third quarter. Volatility picked up in late September, related in part to the potential contagion stemming from the possible default of a large Chinese property developer. Higher quality companies with stable profits outperformed more cyclical businesses.
- The Canadian market (S&P/TSX Composite Index) rose 0.2%. Consumer staples, industrials, and real estate were the strongest sectors while healthcare lagged considerably, dragged down by weakness in the cannabis sector.
- The loonie fell slightly against the U.S. Dollar and Yen (boosting the returns of U.S. and Japanese stocks), and was largely unchanged against the Euro and British Pound.

Bonds

- The Canadian bond market (FTSE Canada Universe Bond Index) provided a total return of -0.5% in Q3. Interest income wasn't enough to offset price depreciation.
- Longer-term bond yields declined for much of the summer, but surged higher in late September after central banks signaled a policy shift towards less monetary stimulus. The Government of Canada 10-year yield finished the quarter at 1.5%, up from 1.1% in early August (reminder: when bonds yields rise, prices fall).
- Corporate and high yield bonds continued to outperform government bonds.

Our Funds

- Our funds had a mixed quarter, with strength in the Global Small-Cap and Equity Funds offset by our other two equity funds. Our balanced clients' portfolios were up slightly. Over the past 10 years, our balanced returns were roughly 7% per year.
- The stock weighting in the Founders Fund is right at its long-term target (60%).
- In the context of our balanced portfolios, key transactions included the purchase of TATE & LYLE (U.K.), HAMMOND POWER SOLUTIONS (Canada), and BRUNSWICK (U.S.); and the sale of CERVED GROUP (Italy), INTERFOR (Canada), and GARTNER (U.S.).

Our Advice to Clients

We recommend that your equity weighting be near your long-term target. In the Founders Fund, our stock weighting is 60%, which is right in line with its target. We feel valuations are reasonable in sectors that haven't fully participated in the rally, but are wary of the speculation that appears rampant in industries such as cannabis, cryptocurrencies and technology. Our outlook for bonds is subdued as yields are unattractive. We recommend a below-average position in the asset class, with cash as an alternative. In the Founders Fund, 16% of the portfolio is currently held in cash.

For our latest thoughts on asset mix and the advice we're giving clients, you can always visit the [Current Outlook](#) page on our website, or give us a call at 1.888.888.3147.

Market Returns

| | 3M | 1Y |
|--------|------|-------|
| Canada | 0.2% | 28.0% |
| World | 2.2% | 22.6% |

| | 3M | 1Y |
|-------|-------|-------|
| Bonds | -0.5% | -3.3% |

Fund Returns

| | 3M | 1Y |
|------------------|-------|-------|
| Savings | 0.0% | 0.0% |
| Income | 0.1% | 4.7% |
| Founders | 0.7% | 14.0% |
| Builders | 1.3% | 22.8% |
| Equity | 3.4% | 15.0% |
| Global | -0.3% | 28.2% |
| Small-Cap | -2.4% | 30.2% |
| Global Small-Cap | 3.8% | 21.9% |



Founders Fund

Fund Overview

- The Founders Fund is a balanced fund with a target asset mix of 60% stocks and 40% fixed income. It gains this exposure from investing in Steadyhand's other funds.
- Tom Bradley manages the fund along with his Co-Chief Investment Officer Salman Ahmed. They have considerable scope to adjust the portfolio although without extremes in valuation and investor sentiment, their bias is to stay near the target mix.

Portfolio Specifics

- The fund posted a return of 0.7% in the third quarter. As was the case last quarter, positive stock markets offset negative returns from fixed income investments. Year-to-date, the fund is up 5.5%.
- There were no big changes to the fund in Q3. We maintained our preferred asset mix by occasionally trimming positions in the underlying equity funds and allocating client inflows to cash.
- Founders is designed to have equity content around 60% and that's exactly where it's been in recent months. Some clients would like the allocation to be higher given extremely low bond yields, but we remain concerned about high stock valuations and even higher levels of speculative behaviour in some areas of the market.
- A full allocation to fixed income is the fund's insurance policy. Holdings include a large position in the Income Fund and a cash reserve. The Income Fund provides the return potential with large allocations to corporate and high yield bonds, while the cash offers protection against rising interest rates and provides ready liquidity.
- As a reminder, the Founders' asset mix is important, but returns are primarily driven by the performance of the underlying funds. Through these funds, the portfolio consists of a mix of bonds and stocks across a wide range of industries, geographies, and currencies.
- The largest transactions in the quarter (in the underlying funds) included the purchase of TATE & LYLE (U.K.), HAMMOND POWER SOLUTIONS (Canada), and BRUNSWICK CORPORATION (U.S.); and the sale of CERVED GROUP (Italy), INTERFOR (Canada), TELEPERFORMANCE (France), and GARTNER (U.S.).

Positioning

- We are proceeding with caution in the current economic and market environment. This means a full allocation to fixed income (including some cash), minimal exposure to speculative sectors, and consistent rebalancing towards the funds where stock prices have not kept up with companies' fundamentals.
- For more details on the underlying funds, please review pages 8-18.

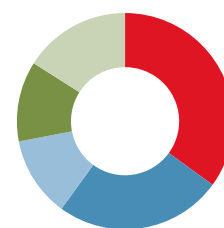
The fund was up 0.7% in the quarter. Since inception (Feb 2012), it has a cumulative return of 92%, which equates to an annualized return of 7.0%.

Fund Mix

| | |
|------------------|-----|
| Income | 34% |
| Global | 20% |
| Equity | 18% |
| Small-Cap | 7% |
| Global Small-Cap | 7% |
| Cash | 14% |



Asset Mix



| | |
|-------------------|-----|
| Foreign Stocks | 35% |
| Canadian Stocks | 25% |
| Gov't Bonds | 12% |
| Corporate Bonds | 12% |
| Cash & Short-term | 16% |

Fund size \$605,321,139

Founders Fund

Attributes

Top Stock Holdings (% of Fund)

| | |
|-----------------------|------|
| TD Bank | 1.5% |
| CN Rail | 1.4% |
| Visa | 1.1% |
| Danaher | 1.1% |
| Raytheon Technologies | 1.0% |
| Franco-Nevada | 1.0% |
| Keyence | 1.0% |
| Safran | 1.0% |
| Bayer | 1.0% |
| Vistra | 1.0% |

Sector Allocation (Stocks)

| | |
|------------------------|-------|
| Industrial Goods & Svc | 26.1% |
| Financial Services | 23.0% |
| Healthcare | 10.4% |
| Technology | 6.6% |
| Consumer Products | 5.9% |
| Consumer Cyclical | 5.5% |
| Utilities & Pipelines | 5.1% |
| Real Estate | 4.6% |
| Basic Materials | 4.5% |
| Comm. & Media | 3.9% |
| Oil & Gas | 2.7% |
| Retailing | 1.7% |

Asset Mix

| Long-term | | Current |
|-----------|-----------------|---------|
| 17% | Overseas Stocks | 19% |
| 17% | U.S. Stocks | 16% |
| 26% | Canadian Stocks | 25% |
| 35% | Bonds | 24% |
| 5% | Cash | 16% |

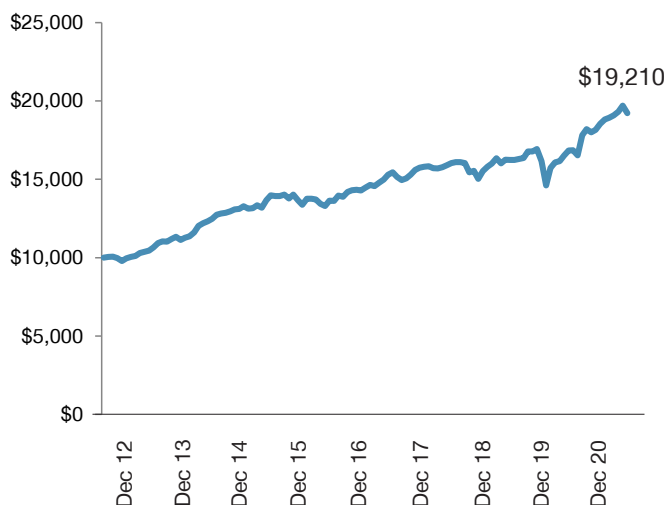
Performance

Compound Annualized Returns (as of September 30, 2021)

| | 3M | YTD | 1Y | 2Y | 3Y | 5Y | 10Y | Incep ¹ |
|--|-------------|-------------|--------------|-------------|-------------|-------------|------------|--------------------|
| Founders Fund (after-fee) | 0.7% | 5.5% | 14.0% | 8.6% | 6.2% | 6.0% | N/A | 7.0% |
| FTSE Canada Universe Bond Index | -0.5% | -4.0% | -3.3% | 2.3% | 4.3% | 2.3% | N/A | 3.3% |
| Morningstar Developed Mkts Index (\$Cdn) | 2.2% | 12.1% | 22.6% | 16.4% | 11.9% | 12.6% | N/A | 14.1% |
| S&P/TSX Composite Index | 0.2% | 17.5% | 28.0% | 13.1% | 11.1% | 9.6% | N/A | 8.3% |

¹Feb 17, 2012

Growth of \$10,000 Since Inception



Best and Worst Annualized Returns



Builders Fund

Fund Overview

- The Builders Fund is a fund-of-funds that invests mainly in Steadyhand’s four stand-alone equity funds — Equity Fund, Global Equity Fund, Small-Cap Equity Fund, and Global Small-Cap Equity Fund. It’s an all-stock portfolio designed for growth-oriented investors.
- The underlying fund mix is managed by Co-Chief Investment Officer Salman Ahmed, with Tom Bradley as co-manager.

The fund was up 1.3% in the quarter. Since inception (Feb 2019), it has a cumulative return of 27%, which equates to an annualized return of 9.5%.

Portfolio Specifics

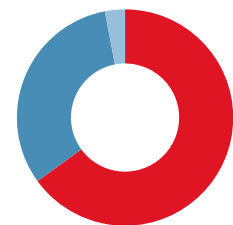
- The fund has benefited from strong markets so far in 2021. It was up 1.3% in the third quarter and has gained 9.2% year-to-date. While the portfolio has done well over the last 12 months, it has failed to keep up with the indexes this year as its two largest holdings (the Global Equity Fund and Equity Fund) have lagged.
- Investments are allocated roughly 1/3 towards companies based in Canada and 2/3 towards foreign businesses. The bias to foreign companies reflects a much broader opportunity set outside of Canada, particularly in important industries like healthcare, technology, and consumer products and services.
- In keeping with Builders’ growth objective, it holds 15% of its assets in each of our two small-cap funds (30% in total). These two funds have been our best performers in 2021. While smaller companies can experience more pronounced short-term fluctuations, they have proven to provide superior returns in the long run.
- The fund is more evenly balanced across industry sectors than most Canadian portfolios. The largest sector weight, industrial goods & services (29% of the fund), includes a diverse mix of companies such as RAYTHEON (aerospace and defense systems), CN RAIL, SAFRAN (jet engines), and RITCHIE BROTHERS AUCTIONEERS (heavy equipment auctioneer).
- Financial services (20%) is another important sector. The largest holdings are Visa, TD Bank, BrightSphere Investment Group (asset management), and Alleghany (property and casualty insurance).
- Healthcare stocks make up 12% of the portfolio and also represent a diverse mix of businesses including DANAHER (diagnostic tools and medical equipment), BAYER (pharmaceuticals and life sciences), GRIFOLS (plasma-based products and pharmaceuticals) and AMPLIFON (hearing aids).
- The portfolio has some exposure to commodity-related stocks, including FRANCO-NEVADA (gold), NUTRIEN (fertilizers), and SCHLUMBERGER (oilfield services), but resource companies are not a prominent feature of the fund due to their inherent cyclicity.

Fund Mix

| | |
|------------------|-----|
| Equity | 35% |
| Global | 35% |
| Small-Cap | 15% |
| Global Small-Cap | 15% |



Asset Mix



| | |
|-------------------|-----|
| Foreign Stocks | 64% |
| Canadian Stocks | 32% |
| Cash & Short-term | 4% |

Fund size \$136,362,374

Positioning

- Refer to pages 10-17 for details on the underlying funds.



Builders Fund

Attributes

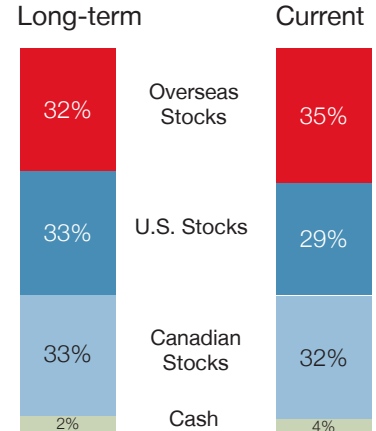
Top Stock Holdings (% of Fund)

| | |
|-----------------------|------|
| Visa | 2.0% |
| Danaher | 2.0% |
| Franco-Nevada | 2.0% |
| Keyence | 1.9% |
| TD Bank | 1.8% |
| Raytheon Technologies | 1.8% |
| CN Rail | 1.8% |
| Microsoft | 1.8% |
| Safran | 1.7% |
| Bayer | 1.7% |

Sector Allocation (Stocks)

| | |
|------------------------|-------|
| Industrial Goods & Svc | 29.1% |
| Financial Services | 20.3% |
| Healthcare | 12.0% |
| Technology | 7.4% |
| Consumer Cyclical | 6.5% |
| Consumer Products | 6.4% |
| Basic Materials | 5.1% |
| Utilities & Pipelines | 4.0% |
| Comm. & Media | 3.2% |
| Oil & Gas | 2.9% |
| Retailing | 1.6% |
| Real Estate | 1.5% |

Asset Mix



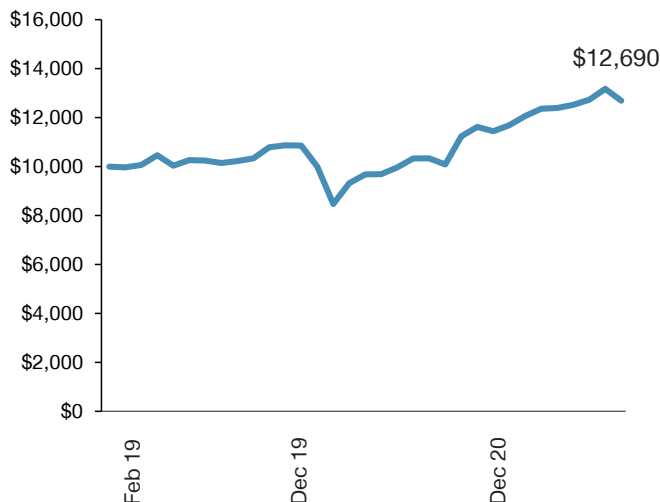
Performance

Compound Annualized Returns (as of September 30, 2021)

| | 3M | YTD | 1Y | 2Y | 3Y | 5Y | 10Y | Incep ¹ |
|--|-------------|-------------|--------------|--------------|------------|------------|------------|--------------------|
| Builders Fund (after-fee) | 1.3% | 9.2% | 22.8% | 11.4% | N/A | N/A | N/A | 9.5% |
| Morningstar Developed Mkts Index (\$Cdn) | 2.2% | 12.1% | 22.6% | 16.4% | N/A | N/A | N/A | 14.1% |
| S&P/TSX Composite Index | 0.2% | 17.5% | 28.0% | 13.1% | N/A | N/A | N/A | 12.9% |

¹Feb 15, 2019

Growth of \$10,000 Since Inception



Best and Worst Annualized Returns



Income Fund

Market Context

- The Canadian bond market fell 0.5% in the quarter (interest less capital depreciation).
- Bond yields trended lower until the last week of September, when they surged after central banks signaled a shift towards less monetary stimulus.
- Canadian stocks gained 0.2%, led by consumer staples and industrial stocks.

Portfolio Specifics

- In the face of rising interest rates, the fund has performed well. Its bond holdings (73% of total assets) held up relatively well in the quarter and the stocks (27%) were up, as has been the case throughout the year. So far in 2021, the fund has a 1.7% return.
- Corporate bonds continue to make up the largest part of the portfolio with an emphasis on banks and telecoms. Business investment and corporate profits have been strong, helping to support this asset class.
- Provincial bonds are also an important component, with Government of Ontario bonds carrying the greatest weight.
- The fund's investments in *real return bonds* (those that pay a return that is adjusted for inflation) have done well as inflation has picked up. We took some profits in these securities as inflation edged towards our manager's (Connor, Clark & Lunn) target.
- High yield bonds (5% of the fund) have also been positive contributors. The fund holds a wide range of U.S. and Canadian issuers with an emphasis on those that will benefit from the reopening of the economy. Notable holdings include SPRINT CORP, ARAMARK, AMERICAN AIRLINES, LIVENATION, and ENBRIDGE.
- A key to the fund's design is its allocation to dividend-paying stocks. They provide inflation protection and help enhance the long-term return. This has certainly been the case this year as stocks have given the fund a much-needed boost. Our manager focuses primarily on proven dividend growers (as opposed to companies with the highest yields). The largest holdings are in banks, REITs (real estate), industrials, telecoms, and utilities.
- The fund paid a distribution of \$0.045/unit at the end of September.

Positioning

- Our manager believes the world economy is on a strong growth path, despite setbacks due to the pandemic's fourth wave. They also feel that inflation may be more persistent than central banks and many investors expect. In this context, corporate bonds (including high yield) continue to make up the largest part of the portfolio.
- Dividend stocks also comprise a sizable component and remain an important source of diversification and yield. CC&L has a current bias towards high-quality large cap stocks.

The fund was up 0.1% in the quarter. Since inception (Feb 2007), it has a cumulative return of 115%, which equates to an annualized return of 5.4%.

Notable Stock Transactions

Buy

Nutrien*
 Toromont*
 Sun Life Financial*
 Goeasy
 *New holding

Trim/Sell

Quebecor¹
 Saputo Group
 Element Fleet Management
 Manulife

¹Position eliminated

| | |
|--------------------|--------------|
| Fund size | \$88,014,638 |
| Pre-fee Yield | 2.4% |
| Avg Term to Matur. | 10.9 yrs |
| Duration (Bonds) | 8.2 yrs |



Income Fund

Attributes

Top Holdings (% of Fund)

| | |
|---------------------------|------|
| CC&L High Yield Bond Fd | 5.0% |
| RBC Deposit Note (Jan/22) | 2.8% |
| Ontario 1.90% (Dec/51) | 2.3% |
| Ontario 4.70% (Jun/37) | 2.3% |
| Canada 2.00% (Dec/51) | 2.2% |
| Ontario 2.15% (Jun/31) | 2.2% |
| Ontario 2.40% (Jun/26) | 2.0% |
| Royal Bank | 1.9% |
| TD Bank | 1.7% |
| Canadian Apartment Ppty | 1.7% |

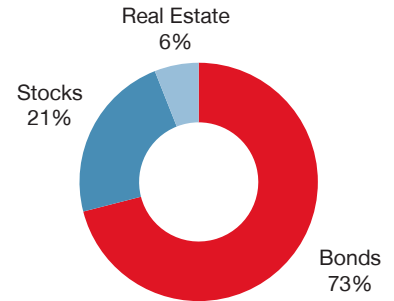
Issuer Allocation (Bonds)

| | |
|-----------------------|-----|
| Federal Government | 11% |
| Provincial Government | 37% |
| Corporate | 52% |

Rating Summary (Bonds)

| | |
|---------------|-----|
| AAA | 22% |
| AA | 35% |
| A | 16% |
| BBB | 23% |
| BB (or lower) | 4% |

Asset Mix



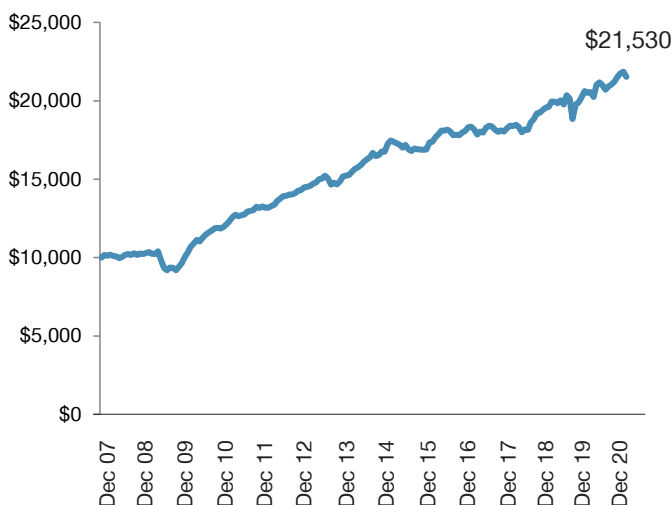
Performance

Compound Annualized Returns (as of September 30, 2021)

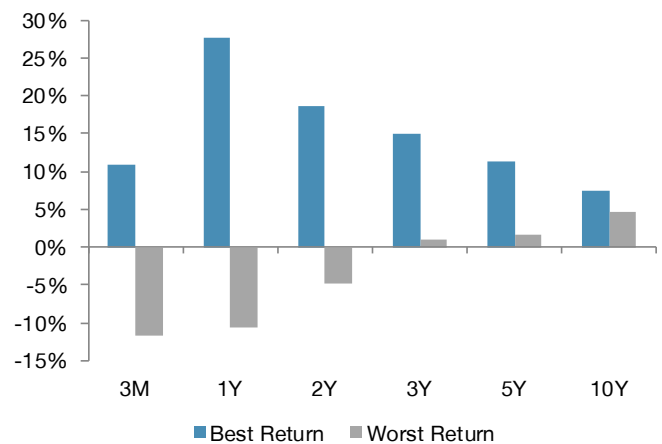
| | 3M | YTD | 1Y | 2Y | 3Y | 5Y | 10Y | Incep* |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Income Fund (after-fee) | 0.1% | 1.7% | 4.7% | 3.9% | 5.5% | 3.5% | 5.0% | 5.4% |
| FTSE Canada Universe Bond Index | -0.5% | -4.0% | -3.3% | 2.3% | 4.3% | 2.3% | 3.3% | 4.3% |
| S&P/TSX Composite Index | 0.2% | 17.5% | 28.0% | 13.1% | 11.1% | 9.6% | 8.8% | 6.1% |

*Feb 13, 2007

Growth of \$10,000 Since Inception



Best and Worst Annualized Returns



Equity Fund

Market Context

- The Canadian stock market (S&P/TSX Composite Index) rose 0.2% in the third quarter. Consumer staples, industrials, and real estate were the strongest sectors.
- Global stocks, as measured by the Morningstar Developed Markets Index, gained 2.2% in Canadian dollar terms.

Portfolio Specifics

- The fund holds 23 stocks, of which 12 are headquartered in Canada, 6 in the U.S., and 5 overseas.
- The fund had a good quarter, gaining 3.4%. Our manager, Fiera Capital, has a focus on quality growth companies, which saw a snapback (investors' attention had been on more cyclical, or "reopening" stocks earlier in the year). Top performers were KEYENCE (a manufacturer of machine vision systems and factory automation sensors), AON (a professional services firm and leader in pension consulting), and DANAHER (a science and technology innovator).
- Two important themes currently run through the portfolio's holdings: (1) they generally have solid pricing power and are able to pass on rising input costs to customers; and (2) they have manageable levels of debt, or none at all. Indeed, KEYENCE, FRANCO-NEVADA, MICROSOFT, and VERISIGN have no net debt. In a world where labour and supply costs are rising, and governments are awash in debt, these are valuable attributes for a business to possess.
- Fiera continues to focus on companies with a global footprint (exceptions being TELUS, CN RAIL, and METRO). Businesses such as Microsoft, Sika, Philips, Thomson Reuters, and Visa have a worldwide customer base and are not as susceptible to a shock or pullback in a particular region.
- We reported last quarter that the portfolio was well sheltered from many of the supply chain issues that have plagued companies throughout the pandemic. This continues to hold true. In fact, many professional services firms that rely on human capital have seen steady growth in demand and profits, including Experian (credit rating services), Thomson Reuters (financial information & news services), and AON.
- Trading activity was once again minimal, with no new purchases or redemptions. Some profits were taken in the top performing stocks and reallocated to those that have been more stagnant, including Toromont, Verisign, and CME Group.
- The fund currently has a cash position of 4%.

The fund was up 3.4% in the quarter. Since inception (Feb 2007), it has a cumulative return of 190%, which equates to an annualized return of 7.5%.

Notable Transactions

Buy

Toromont
Verisign
CME Group
Thomson Reuters

Trim/Sell

Keyence
Experian
Nutrien

Positioning

- The fund is comprised of a concentrated group of businesses operating in a diverse array of industries, from information services to renewable energy to packaging to software. The manager's focus is on best-in-class companies that generate strong cash flows, have good growth prospects, and are well financed.

| | |
|---------------|---------------|
| Fund size | \$106,902,613 |
| No. of stocks | 23 |



Equity Fund

Attributes

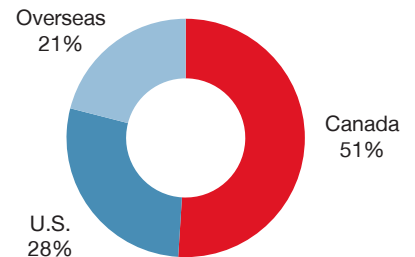
Top Stock Holdings

| | |
|----------------------|------|
| Visa | 5.8% |
| Danaher | 5.7% |
| Franco-Nevada | 5.6% |
| Keyence | 5.5% |
| TD Bank | 5.2% |
| CN Rail | 5.1% |
| Microsoft | 5.0% |
| Sika | 4.6% |
| Brookfield Renewable | 4.3% |
| Ritchie Brothers | 4.2% |

Sector Allocation (Stocks)

| | |
|------------------------|-------|
| Industrial Goods & Svc | 28.8% |
| Financial Services | 26.7% |
| Technology | 13.6% |
| Basic Materials | 10.2% |
| Healthcare | 9.5% |
| Utilities & Pipelines | 4.5% |
| Comm. & Media | 4.1% |
| Retailing | 2.6% |

Geographic Profile (Stocks)



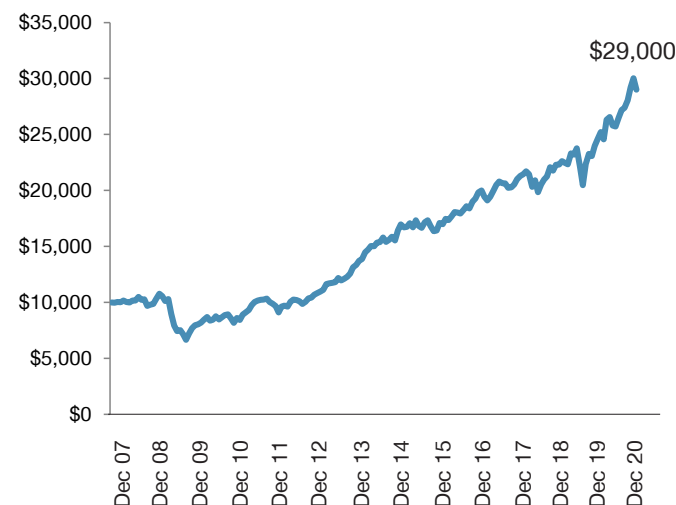
Performance

Compound Annualized Returns (as of September 30, 2021)

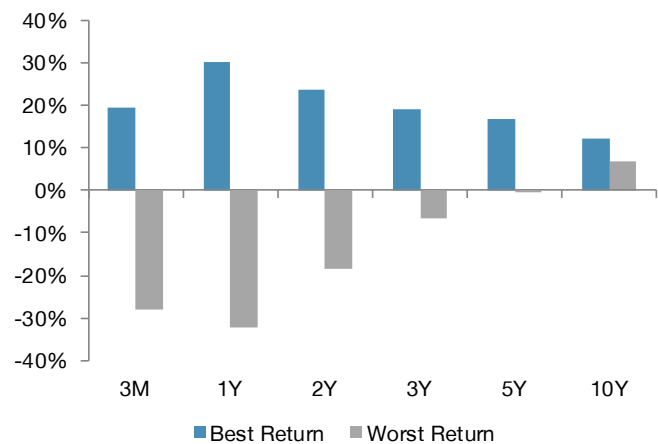
| | 3M | YTD | 1Y | 2Y | 3Y | 5Y | 10Y | Incep ¹ |
|--|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------------|
| Equity Fund (after-fee) | 3.4% | 9.2% | 15.0% | 13.6% | 10.6% | 10.0% | 12.3% | 7.5% |
| S&P/TSX Composite Index | 0.2% | 17.5% | 28.0% | 13.1% | 11.1% | 9.6% | 8.8% | 6.1% |
| Morningstar Developed Mkts Index (\$Cdn) | 2.2% | 12.1% | 22.6% | 16.4% | 11.9% | 12.6% | 14.9% | 7.8% |

¹Feb 13, 2007

Growth of \$10,000 Since Inception



Best and Worst Annualized Returns



Global Equity Fund

Market Context

- Global stocks, as measured by the Morningstar Developed Markets Index, were up 2.2% in Canadian dollar terms in the third quarter.
- North America and Europe were up slightly while emerging markets trailed.

Portfolio Specifics

- The fund holds 43 stocks, of which 16 are based in the U.S., 14 in Europe, 8 in the U.K., 4 in Asia, and 1 in Canada.
- The portfolio had a flat quarter (-0.3%) and is up 8.1% in 2021. While the Q3 number suggests a quiet period, there were some significant stock movements.
- Two holdings were the subject of acquisition, MEGGITT and CERVED GROUP. Meggitt, a British supplier of braking components for the aerospace industry, received a takeover offer from Parker Hannifin. The stock was up 60% in the quarter on the news. Cerved, an Italian provider of credit data, received a takeover offer in March, which was subsequently increased in August. We sold our shares following the increased bid as it was in line with our manager's (Velan Asset Management) estimate of the value of the company. The takeovers were vindication of Velan's belief that the businesses were undervalued and had attractive upside.
- BRIGHTSPHERE INVESTMENT GROUP also had a strong quarter for a similar reason, a sale of assets. The Boston-based asset manager completed the sale of three affiliates (including a forestry management company), bringing in gross proceeds of over \$250 million. The stock has doubled in value over the past year as BrightSphere has refocused its efforts on its core institutional investment management business.
- Three holdings were the primary detractors to performance: DAIRY FARM INTERNATIONAL, GRIFOLS, and NCR (each stock declined between 15-20%). Dairy Farm is a Hong Kong-based retailer that has suffered from weaker earnings attributable in part to COVID-driven shutdowns. Investors have likewise soured on Grifols due to slower earnings growth, while NCR pulled back following a strong run. All three stocks continue to have attractive fundamentals in Velan's view and additional shares were purchased in each.
- One new stock was bought: TATE & LYLE. The British company is a leader in artificial sweeteners and texturants. It has a seasoned management team that has been restructuring the business in recent years and reinvesting in high-growth areas including its cash cow *Splenda* brand.
- The fund currently has a cash position of 4%.

The fund was down 0.3% in the quarter. Since inception (Feb 2007), it has a cumulative return of 52%, which equates to an annualized return of 2.9%.

Notable Transactions

Buy

Tate & Lyle*
Dairy Farm International
Grifols
NCR
Schlumberger

*New holding

Trim/Sell

Cerved Group¹
Meggitt
Euronext
Attendo

¹Position eliminated

Positioning

- The fund is focused on quality companies that generate large amounts of cash flow but are facing temporary headwinds and trading below their true value. Key areas of investment include industrial goods & services, financial services and healthcare.

| | |
|---------------|--------------|
| Fund size | \$60,931,261 |
| No. of stocks | 43 |



Global Equity Fund

Attributes

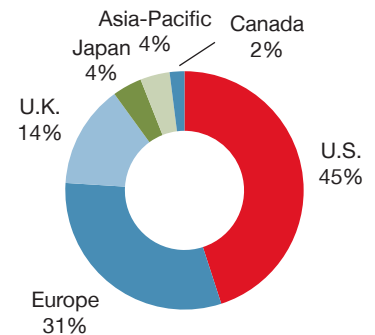
Top Stock Holdings

| | |
|-------------------------|------|
| Raytheon Technologies | 5.1% |
| Safran | 4.9% |
| Bayer | 4.8% |
| Vistra | 4.7% |
| Grifols | 4.0% |
| Walt Disney Company | 3.9% |
| Informa | 3.8% |
| BrightSphere Investment | 3.7% |
| Alleghany | 3.4% |
| Schlumberger | 3.2% |

Sector Allocation (Stocks)

| | |
|------------------------|-------|
| Industrial Goods & Svc | 28.6% |
| Financial Services | 22.1% |
| Healthcare | 15.0% |
| Consumer Products | 10.0% |
| Utilities & Pipelines | 5.0% |
| Oil & Gas | 4.7% |
| Consumer Cyclical | 4.1% |
| Technology | 3.2% |
| Real Estate | 2.9% |
| Basic Materials | 2.3% |
| Retailing | 1.8% |
| Comm. & Media | 0.3% |

Geographic Profile (Stocks)



Performance

Compound Annualized Returns (as of September 30, 2021)

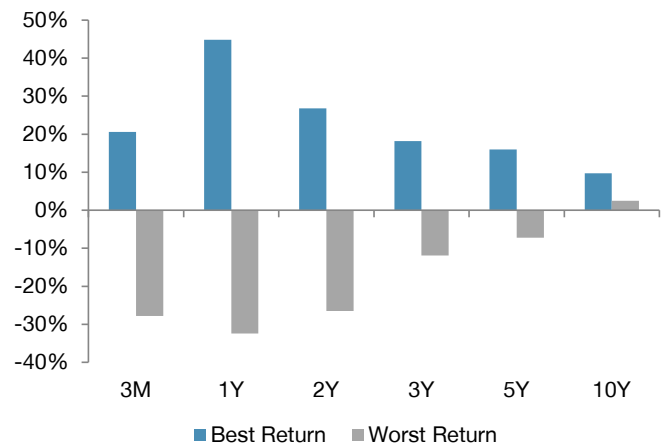
| | 3M | YTD | 1Y | 2Y | 3Y | 5Y | 10Y | Incep ¹ |
|---|--------------|-------------|--------------|-------------|-------------|-------------|-------------|--------------------|
| Global Equity Fund (after-fee) | -0.3% | 8.1% | 28.2% | 7.6% | 1.3% | 5.1% | 8.6% | 2.9% |
| Morningstar Developed Mkts Index (\$Cdn)* | 2.2% | 12.1% | 22.6% | 16.4% | 11.9% | 12.6% | 14.9% | 7.8% |

¹Feb 13, 2007

Growth of \$10,000 Since Inception



Best and Worst Annualized Returns



Small-Cap Equity Fund

Market Context

- The Canadian small-cap market (S&P/TSX SmallCap Index) fell 2.5% in the quarter. U.S. small-caps (Russell 2000 Index) declined 1.7% in Canadian dollar terms.
- Energy and industrial stocks were areas of strength, while the mining sector lagged.

Portfolio Specifics

- The fund consists of 26 companies, ranging from very small (WATERLOO BREWING) to medium-sized businesses (CARGOJET). While the majority of holdings are Canadian, there are three U.S. stocks which make up 12% of the portfolio.
- The fund lost 2.4% in the quarter but is up 11.4% in 2021. Three holdings in particular weighed on performance, AG GROWTH INTERNATIONAL, NFI GROUP, and OSHKOSH. Ag Growth, which is involved in crop handling and storage, faced a few setbacks including severe weather. NFI (a manufacturer of buses) ran into supply chain issues which delayed production. And Oshkosh pulled back after a strong run.
- SLEEP COUNTRY CANADA was the top performer. The retailer of mattresses and bedding products continues to execute well. The company's brick and mortar stores are seeing steady demand and its ecommerce business is growing at a good clip (Sleep Country owns Endy, Canada's leading online mattress-in-a-box company).
- PARK LAWN, CARGOJET, and MEG ENERGY also saw double-digit gains. Park Lawn, which specializes in memorialization and funeral services, is currently the fund's largest holding. It's a well run business with good growth prospects stemming from management's two-fold strategy of pursuing strategic acquisitions (there is a robust pipeline as many "mom-and-pop" operations are experiencing exhaustion due to COVID), and better utilizing its existing assets.
- There was one stock sale in Q3: INTERFOR. The company, one of the world's largest lumber providers, was first added to the fund two years ago when lumber prices were depressed. The commodity subsequently saw a significant rebound (fueled in part by home improvement projects during the pandemic), with prices increasing four-fold and the stock rising in tandem. Our timing of the sale was fortuitous, as we exited the position prior to the most recent pullback in lumber prices.
- On the buy side, HAMMOND POWER SOLUTIONS was purchased. Hammond makes dry-type transformers for industries such as oil & gas, water treatment, construction, and electric vehicle charging (it counts Tesla as a customer). Additional shares of AG GROWTH, FLUOR, TOREX GOLD RESOURCES, and HENRY SCHEIN were also purchased.
- The fund currently has a cash position of 4%.

The fund was down 2.4% in the quarter. Since inception (Feb 2007), it has a cumulative return of 163%, which equates to an annualized return of 6.8%.

Notable Transactions

Buy

Hammond Power Solutions*
Ag Growth International
Torex Gold Resources
Henry Schein

*New holding

Trim/Sell

Interfor¹
Badger Infrastructure
MEG Energy
SNC-Lavalin Group

Positioning

- The portfolio has a unique composition, with key areas of investment being capital goods, food & beverage, and engineering services. This is in contrast to the small-cap market's heavy focus on resource companies.

| | |
|---------------|--------------|
| Fund size | \$49,087,812 |
| No. of stocks | 26 |



Small-Cap Equity Fund

Attributes

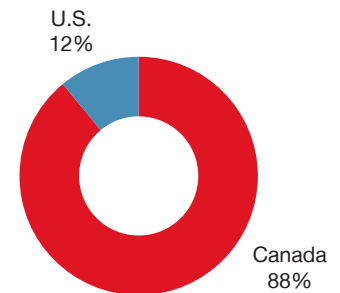
Top Stock Holdings

| | |
|-------------------------|------|
| Park Lawn | 5.4% |
| SNC-Lavalin Group | 5.2% |
| Savaria | 5.0% |
| Premium Brands Hldgs | 5.0% |
| Waterloo Brewing | 4.8% |
| Northland Power | 4.7% |
| Spin Master | 4.5% |
| Maple Leaf Foods | 4.4% |
| Ag Growth International | 4.4% |
| MEG Energy | 4.4% |

Sector Allocation (Stocks)

| | |
|------------------------|-------|
| Industrial Goods & Svc | 46.5% |
| Consumer Cyclical | 16.2% |
| Consumer Products | 14.8% |
| Oil & Gas | 8.4% |
| Utilities & Pipelines | 4.8% |
| Healthcare | 4.4% |
| Basic Materials | 4.3% |
| Retailing | 0.6% |

Geographic Profile (Stocks)



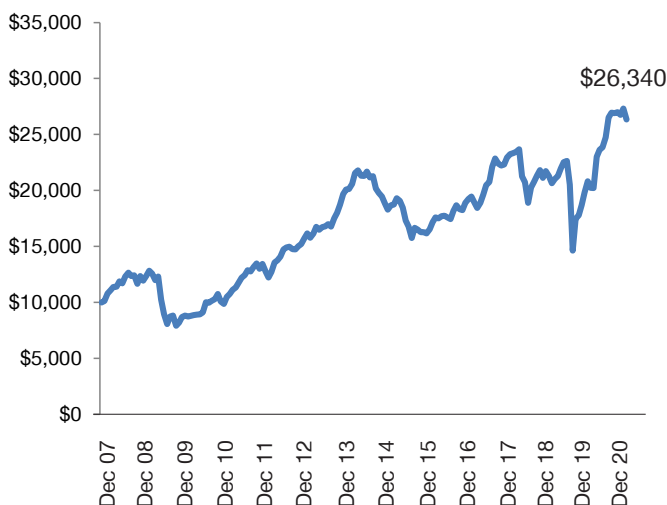
Performance

Compound Annualized Returns (as of September 30, 2021)

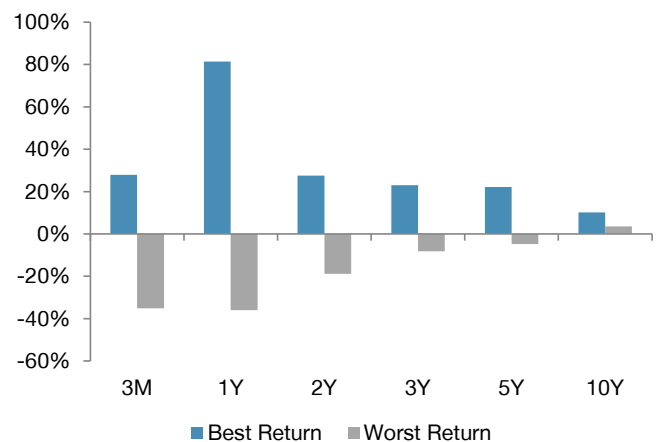
| | 3M | YTD | 1Y | 2Y | 3Y | 5Y | 10Y | Incep ¹ |
|---|--------------|--------------|--------------|--------------|-------------|-------------|-------------|--------------------|
| Small-Cap Equity Fund (after-fee)* | -2.4% | 11.4% | 30.2% | 12.0% | 3.6% | 8.4% | 8.0% | 6.8% |
| S&P/TSX SmallCap Index | -2.5% | 16.7% | 44.1% | 18.3% | 9.3% | 5.8% | 5.3% | 3.2% |
| Russell 2000 Index (\$Cdn) | -1.7% | 12.5% | 41.1% | 19.4% | 10.0% | 12.8% | 17.0% | 9.2% |

¹Feb 13, 2007

Growth of \$10,000 Since Inception



Best and Worst Annualized Returns



Global Small-Cap Equity Fund

Market Context

- The global small-cap market (S&P Global SmallCap Index) rose 0.3% in the third quarter in Canadian dollar terms.
- The technology, industrial, financial, and real estate sectors were among the top performing industries.

Portfolio Specifics

- The portfolio is currently invested in 42 companies. Fifteen are based in the U.S., 13 in Europe, 6 in the U.K., 5 in Japan, 2 in Australia, and 1 in Brazil.
- The fund had a good quarter (+3.8%) and is up 9.3% on the year. Companies producing strong profits regained favour with investors in the summer. Many holdings turned in solid earnings growth and were rewarded with rising share prices, notably CHARLES RIVER LABORATORIES, GARTNER, and REXNORD.
- Two of the portfolio's largest holdings were sold, TELEPERFORMANCE and GARTNER. Both were stellar performers over our holding period and had grown to over \$20 billion in market capitalization. As they now fall firmly into the large cap realm, our manager (TimesSquare Capital Management) moved on to pursue other opportunities. Two smaller holdings were sold based on weakening outlooks: RUBIS, which is involved in the distribution of oil & gas; and HUYA, a live streaming game platform which fell victim to the Chinese government's clampdown on gaming.
- TimesSquare was active on the purchase front as well, buying several new stocks across a range of industries, including: BRUNSWICK CORPORATION (builds boats and owns a popular boat-sharing program); SPIRENT COMMUNICATIONS (world leader in testing equipment and software for telecom operators and manufacturers); KADOKAWA (media firm involved in anime and manga, the popular Japanese comic books); TOTVS (Brazilian software company that specializes in business solutions); and ALK-ABELLO (develops and manufactures allergy medications).
- Two stocks were also purchased with an eye towards sustainability, both based in Finland: HUHTAMAKI is a food packaging specialist that manufactures fiber-based, recyclable containers, cups, and plates; while VALMET develops systems and technologies for the pulp & paper industry that focus on a more efficient use of water and energy in the manufacturing process.
- Shipping delays and supply chain issues have been well publicized, but the fund's holdings have generally avoided any major operational disruptions. Some investments, such as CIE AUTOMOTIVE, have even benefited from the logistics problems in China.
- The fund currently has a cash position of 3%.

Positioning

- The fund invests in businesses with a clear competitive edge, a record of consistent earnings growth, and management that has clear goals and a record of success.

The fund was up 3.8% in the quarter. Since inception (Feb 2019), it has a cumulative return of 41%, which equates to an annualized return of 14.0%.

Notable Transactions

Buy

Brunswick Corporation*
Spirent Communications*
Kadokawa*
TOTVS*
Huhtamaki*

*New holding

Trim/Sell

Teleperformance¹
Gartner¹
Rubis¹
Huya¹
Charles River Laboratories

¹Position eliminated

| | |
|---------------|--------------|
| Fund size | \$11,016,904 |
| No. of stocks | 42 |



Global Small-Cap Equity Fund

Attributes

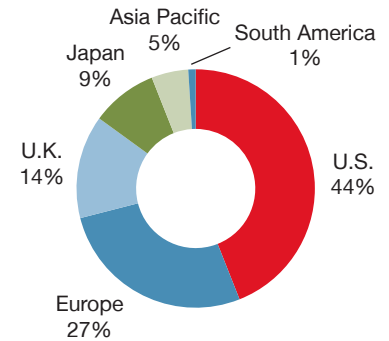
Top Stock Holdings

| | |
|-----------------------|------|
| Rexnord | 4.2% |
| National Vision | 3.8% |
| Nordic Entertainment | 3.8% |
| St. James's Place | 3.5% |
| Kennedy-Wilson | 3.4% |
| Chemed | 3.3% |
| RenaissanceRe | 3.3% |
| PJT Partners | 3.2% |
| Encompass Health | 3.2% |
| Brunswick Corporation | 3.1% |

Sector Allocation (Stocks)

| | |
|------------------------|-------|
| Industrial Goods & Svc | 22.6% |
| Financial Services | 21.2% |
| Healthcare | 17.9% |
| Consumer Cyclical | 17.9% |
| Technology | 10.3% |
| Consumer Products | 4.6% |
| Real Estate | 3.6% |
| Comm. & Media | 1.9% |

Geographic Profile (Stocks)



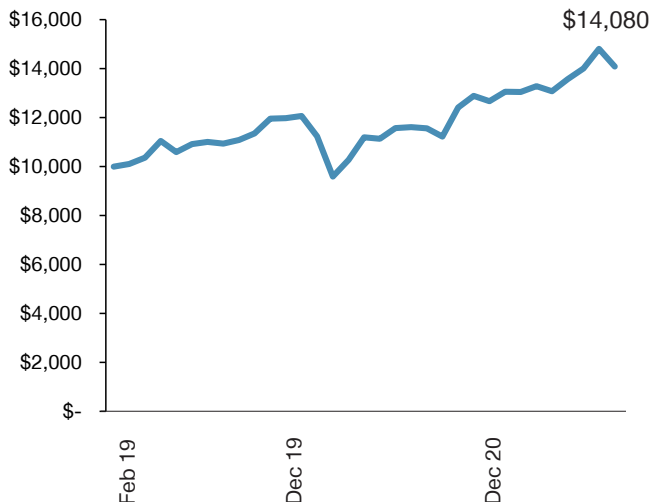
Performance

Compound Annualized Returns (as of September 30, 2021)

| | 3M | YTD | 1Y | 2Y | 3Y | 5Y | 10Y | Incep ¹ |
|---|-------------|-------------|--------------|--------------|------------|------------|------------|--------------------|
| Global Small-Cap Equity Fund (after-fee) | 3.8% | 9.3% | 21.9% | 12.7% | N/A | N/A | N/A | 14.0% |
| S&P Global SmallCap Index (\$Cdn) | 0.3% | 12.2% | 31.7% | 17.0% | N/A | N/A | N/A | 13.3% |

¹Feb 15, 2019

Growth of \$10,000 Since Inception



Best and Worst Annualized Returns



Savings Fund

Market Context

- The Bank of Canada kept its key lending rate at 0.25% in the third quarter.
- Economic activity remained strong though decreased somewhat from peak levels earlier in the year. Economic tailwinds remain solid, including robust consumer spending, and an expected pickup in business investment.
- Inflation remained firm and continued to be driven by transitory factors.
- The Bank of Canada shifted towards less accommodation by pulling back on its bond purchases. The shift in policy towards less stimulus should be gradual, but looks likely to inject some volatility into financial markets.

Positioning

- T-Bills comprise 50% of the portfolio while corporate paper also makes up 50%.
- Our manager (Connor, Clark & Lunn) slightly increased the fund's exposure to provincial T-Bills in the quarter.
- The pre-fee yield of the fund at the end of September was 0.2%.

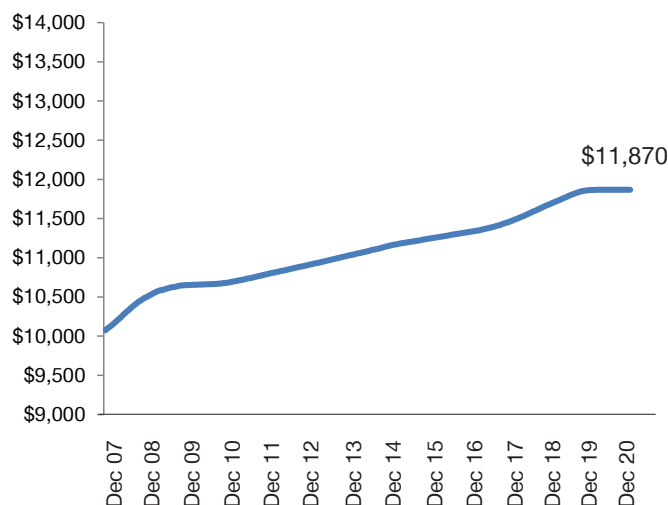
Performance

Compound Annualized Returns (as of September 30, 2021)

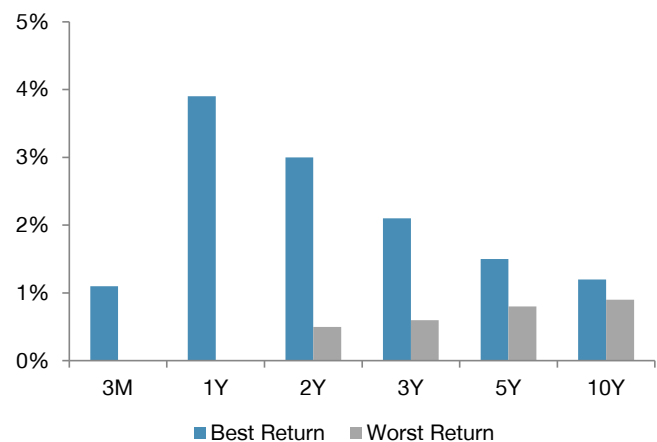
| | 3M | YTD | 1Y | 2Y | 3Y | 5Y | 10Y | Incep* |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Savings Fund (after-fee) | 0.0% | 0.0% | 0.0% | 0.6% | 1.0% | 1.0% | 1.0% | 1.2% |
| FTSE Canada 91 Day T-Bill Index | 0.1% | 0.1% | 0.2% | 0.7% | 1.0% | 0.9% | 0.9% | 1.2% |

*Feb 13, 2007

Growth of \$10,000 Since Inception



Best and Worst Annualized Returns



Is it time to raise cash?

Special to the National Post, by Tom Bradley, September 25, 2021

One question keeps coming up in my discussions with investors: Is it time to raise cash?

The rationale behind the question is roughly the same: “I’ve done really well ... the stock market can’t keep going up forever (or is due for a big dip),” and there’s usually a concern that a troubling current event, such as rising inflation or regulatory uncertainty in China, will prevent stocks from going higher.

I have sympathy for these arguments. I said in my second quarter letter to clients that “it seems like a better time to be harvesting than planting.” In our Founders Fund, we’ve been edging down the equity content in recent months.

Nonetheless, my answer to the cash question is a resounding “it depends.”

It depends on a range of things, including why you’re asking, the purpose and time frame of the money you would get and whether you’ve strayed, or are thinking of straying, significantly from your investment plan.

This is an unsatisfactory answer for most people, so let’s review some circumstances where I can be more decisive. I’ll start with the noes.

The answer is no if you’re invested in a professionally managed balanced fund. You’ve turned the keys over to a fund manager, so let them adjust the portfolio based on their fundamental outlook and valuation work.

The answer is also no if you’re making a short-term call because you heard someone say the market is heading down. There’s no way to reliably call the market over the next quarter or year, let alone time the next correction.

Stock prices are driven by a multitude of factors in the short term. It’s impossible to know which ones investors will latch onto next, and the relationship between economics and markets is sloppy at best.

What makes it even harder is the need to get not one, but two decisions right. Yes, after you get out (difficult), you’ve got to get back in (more difficult).

And, keep in mind, you’re betting against the house when you go to cash. Stocks have consistently been a winning hand. Since 1960, a 50/50 portfolio of Canadian and foreign stocks has had an average annual return of almost 10%. If your time frame is measured in decades, don’t try to get too cute.

There are circumstances, however, where selling down your stocks makes sense.

If your portfolio has strayed from its intended asset mix, then, yes, it’s time to get back to plan. The divergence between bond and stock returns has been significant over the past year — bonds have had a negative return. If you haven’t made any adjustments to your 60/40 stock/bond portfolio, stocks now account for 65 to 67% of the mix, and rebalancing is appropriate.

The answer is also yes if you need money to do a kitchen renovation or book a long-awaited trip. Don’t hesitate to set the money aside.

There’s one other reason to lighten up on stocks and it relates to your age, or, should I say, aging. You are another year older and although your portfolio’s target mix shouldn’t change much from year to year, it may be time to dial down the risk a notch.

Let me be clear, I’m not talking about a short-term move, but rather a reset of your portfolio based on your age and life stage. A good time to do a review like this is when markets are calm, and returns have been good.

Is it time to raise cash? I encourage you to be guided by the purpose of the money as opposed to a hunch on where the market is going. You’ll make fewer unforced errors that way.



Steadyhand



Eating our own cooking

One of our key business principles is co-investment — the practice of investing alongside our clients.

We've [updated our numbers](#) for 2021 and can report that on average, our team has **92%** of our financial assets invested in our funds. Now that's home cooking!

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