

# Steadyhand

**Q3**  
2019

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“If you’re comfortable with everything you own, you’re not diversified.”

— Peter Bernstein



## Bradley's Brief



The hockey season is beginning and I can't resist using a sports analogy to describe how Steadyhand has been doing.

In a nutshell, we've been like a goal scorer who's in a slump. In recent quarters, not enough pucks went in the net. As a result, our returns have been below our expectations.

There are many possible explanations for slumps. I'll focus on three.

First, the winger is playing well and getting lots of chances, but hitting the goalie or missing the net. Second, his style of play doesn't match up well against the opponent. And finally, the least satisfactory reason — he's just not playing well. He's making mistakes and not putting himself in a position to score.

In our case, it's a bit of all three.

We have a talented group of fund managers who know how to score (they have excellent long-term records). At these firms, the same people who built the records are making decisions using the same process and investment philosophies. In other words, we're creating chances.

As for the landscape (matchup), the markets have been challenging for fundamental, valuation-conscious investors. That's because the hot, growth-oriented sectors, that appear expensive by historical standards, have stayed hot, or even become more popular. Conversely, the overlooked parts of the markets, like energy, healthcare and more cyclical companies, have continued to languish, even though they're trading at heavily discounted prices. For investors who have thrived on being contrarian, like myself, it's been a frustrating period.

And I can't skate around the third reason. We've made more mistakes than we usually do. As you'll read in the

following pages, many of our bonds and stocks have had good runs but a few of our strategies have been holding us back. Mistakes are part of investing, but we've fanned on the puck too often.

Specifically, our equity funds have been light on high growth companies and heavy on high-quality industrial and healthcare businesses. This dichotomy has been most acute in the Global Equity Fund.

A cautious stance has also weighed on our returns, particularly in the Founders Fund. For instance, we've deliberately diversified our fixed income holdings across cash and bonds. They had similar yields but different risk profiles. The differences revealed themselves when interest rates declined significantly, and bonds produced stellar returns. In hindsight, we should've had more Income Fund and less Savings Fund in our mix.

In discussing our slump, I'd be remiss if I didn't say how comfortable I am with our positioning. Our managers continue to rigorously assess value. They're rotating out of stocks that have gotten expensive and moving into others that have lagged. In the Founders Fund, Salman and I are doing our part, making sure we have a full allocation to our most oversold asset, the Global Equity Fund.

Also, our team would be mad at me if I took the slump analogy too far. For the more controllable elements of our business, we're still at the top of our game. We have a deep team, which allows us to be responsive to clients' calls, as well as their requests for portfolio reviews. If you want to discuss your statement or this report, an Investor Specialist will pick up your call in 2 or 3 rings.



## Key Takeaways

### Stocks

- Stocks had a positive quarter for the most part, although gains were modest. The U.S. market (S&P 500 Index) was up 2%, key European markets gained 1-5%, Japan was up 2%, while emerging markets lost 3% (all in local currency terms).
- The Canadian market (S&P/TSX Composite Index) gained 2.5% led by utilities and real estate stocks.
- The loonie gained 3% on the Euro (dampening the returns of European stocks in Canadian dollar terms) but was little changed against other major currencies.

### Bonds

- Bond yields declined further in the quarter (which is positive for bond prices), with the 10-year Government of Canada benchmark yield falling from 1.5% in July to 1.4% at the end of September. It dropped as low as 1.1% in August.
- The Canadian bond market has gained an impressive 9.7% over the past year amid an uncertain global economic backdrop.
- The yield curve remains inverted in Canada and the U.S., meaning shorter-term yields are higher than longer-term yields. In Europe, interest rates dropped further into negative territory. These are both signals from the bond market that the global economy is at risk of slowing down.

### Our Funds

- Our funds had a mixed quarter. The Income Fund turned in a strong return while our equity funds lagged. Our balanced clients' portfolios were largely flat. Over the past 10 years, our balanced portfolios have returned roughly 7% per year.
- The stock weighting in the Founders Fund was brought down slightly, to 59%.
- In the context of our balanced portfolios, key transactions in the quarter included the purchase of CRODA INTERNATIONAL (U.K.) and SUSHIRI GLOBAL (Japan), and the sale of ANADARKO PETROLEUM (U.S.), TRIBUNE MEDIA (U.S.), and DREAM GLOBAL REIT (Canada).

## Our Advice to Clients

We recommend that your equity weighting be at, or slightly below, your long-term target. In the Founders Fund, our stock weighting is 59%, just under our target of 60%. We feel valuations are reasonable, with the exception of some pockets of the market. Our outlook for bonds remains subdued as current yields are unattractive. As a result, we recommend a below-average position in the asset class, with cash as an alternative. In the Founders Fund, for example, 16% of the portfolio is currently held in cash.

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

### Market Returns

	3M	1Y
Canada	2.5%	7.1%
World	1.7%	3.5%

	3M	1Y
Bonds	1.2%	9.7%

### Fund Returns

	3M	1Y
Savings	0.4%	1.8%
Income	1.9%	8.9%
Founders	0.3%	1.6%
Equity	0.8%	4.7%
Global	-1.3%	-10.3%
Small-Cap	-3.3%	-11.2%
Global Small-Cap	N/A	N/A
Builders	N/A	N/A



## 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.
- Steadyhand President Tom Bradley manages the fund and Salman Ahmed is co-manager. They have considerable scope to adjust the portfolio to reflect their views on valuations, corporate fundamentals and investor sentiment.

The fund was up 0.3% in the quarter. Since inception (Feb 2012), it has a cumulative return of 63%, which equates to an annualized return of 6.6%.

### Portfolio Specifics

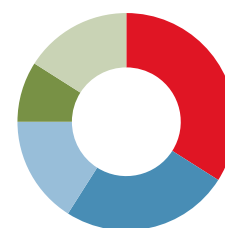
- The Founders Fund has more than recovered from a tough 2018 due to strong bond and stock markets. The fund's year-to-date return is 8.5%. As noted in Bradley's Brief (page 2), however, not enough of our cylinders have been firing. While the Income, Equity and Global Small-Cap funds have done their jobs, the Small-Cap Equity Fund has taken a breather and the Global Equity Fund continues to be out of sync with the market.
- Our cautious stance on the fixed income side also weighed on returns. We've deliberately diversified our holdings between cash and bonds (i.e. holding less Income Fund and more Savings Fund), which had similar yields but different risk profiles. With interest rates dropping significantly over the last year, bonds responded and produced excellent returns.
- In the Founders, the Canada-based companies are mostly global in nature and play to Canada's strengths: banking, transportation, energy, and industrial services. The companies based in the U.S., Europe, and Asia are more focused on industries not available in Canada: healthcare, consumer products, and technology.
- The fund is fully invested in stocks (59% of total assets) with 25% in Canadian-based companies and 34% in foreign. Our bias, however, has been to reduce the equity weighting rather than add to it. We've done a modest amount of selling during periods of strength to keep the allocation under 60%.
- During the third quarter, we added a few new holdings including SAPUTO GROUP (dairy products), CRODA INTERNATIONAL (specialty chemicals), STELLA-JONES (pressure-treated wood products) and SUSHIRI GLOBAL (restaurants). On the other side of the ledger, our managers eliminated ANADARKO PETROLEUM, TRIBUNE MEDIA, DREAM GLOBAL REIT, UNI-SELECT, EUROFINS SCIENTIFIC, DISCO CORP, and COSTAR GROUP. With the exception of Uni-Select, all were profitable investments.

#### Fund Mix

Income	34%
Global	21%
Equity	19%
Savings	14%
Small-Cap	9%
Global Small-Cap	3%



#### Asset Mix



Foreign Stocks	34%
Canadian Stocks	25%
Gov't Bonds	16%
Corporate Bonds	9%
Cash & Short-term	16%

### Positioning

- We don't anticipate the positioning of the fund changing significantly, although as noted above, we're moving slowly to lower the stock exposure. Bonds will remain below target levels.
- Of the equity funds, Founders' largest position is in the Global Equity Fund, which is where we're finding the most compelling opportunities.

Fund size \$482,561,553



## Founders Fund

### Attributes

#### Top Stock Holdings (% of Fund)

TD Bank	1.8%
Suncor Energy	1.3%
CN Rail	1.2%
Franco-Nevada	1.2%
Visa	1.1%
CME Group	1.1%
Pason Systems	0.9%
Keyence	0.9%
Ritchie Bros.	0.9%
Experian	0.9%

#### Sector Allocation (Stocks)

Industrial Goods & Svc	21.3%
Financial Services	19.2%
Healthcare	10.6%
Oil & Gas	9.7%
Consumer Products	7.2%
Consumer Cyclical	6.0%
Real Estate	4.9%
Comm. & Media	4.5%
Retailing	4.4%
Basic Materials	4.2%
Technology	4.1%
Utilities & Pipelines	3.9%

#### Asset Mix

Long-term		Current
17%	Overseas Stocks	18%
17%	U.S. Stocks	16%
26%	Canadian Stocks	25%
35%	Bonds	25%
5%	Cash	16%

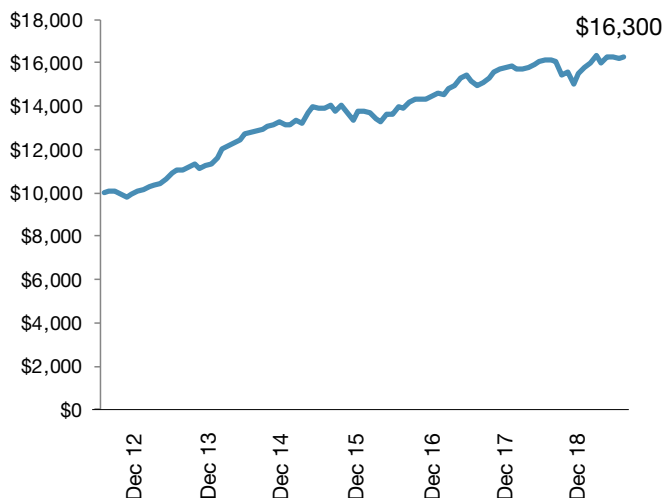
### Performance

#### Compound Annualized Returns (as of September 30, 2019)

	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep <sup>1</sup>
<b>Founders Fund (after-fee)</b>	<b>0.3%</b>	<b>8.5%</b>	<b>1.6%</b>	<b>3.2%</b>	<b>4.4%</b>	<b>4.4%</b>	<b>N/A</b>	<b>6.6%</b>
FTSE TMX Canada Universe Bond Index	1.2%	7.8%	9.7%	5.6%	2.7%	3.9%	N/A	3.7%
S&P/TSX Composite Index	2.5%	19.1%	7.1%	6.5%	7.4%	5.3%	N/A	7.1%
Morningstar Developed Mkts Index (\$Cdn)	1.7%	13.6%	3.5%	9.0%	10.2%	10.9%	N/A	13.5%

<sup>1</sup>Feb 17, 2012

#### Growth of \$10,000 Since Inception



#### Best and Worst Annualized Returns



## Income Fund

### Market Context

- The Canadian bond market rose 1.2% in the quarter (interest and capital appreciation).
- Interest rates declined, with the 10-year Government of Canada yield falling from 1.5% to 1.4% at the end of September (it dropped as low as 1.1% in August).
- The Canadian stock market rose 2.5%. Real estate, utilities and consumer products stocks were areas of strength, while the healthcare and energy sectors were weak.

### Portfolio Specifics

- The fund posted another strong return in the quarter (1.9%), pushing its return for the year to 10.0%.
- Against a backdrop of economic uncertainty, investors have been willing to pay more for investments with defensive properties like bonds and dividend stocks, which has benefited the portfolio.
- Some central banks have already responded to a potential economic slowdown by lowering interest rates to encourage spending. The Bank of Canada has not lowered its key short-term lending rate, but is expected to follow the lead of its U.S. and European counterparts in the coming months.
- The fund continues to be positioned defensively. It holds more in government bonds than corporates as the latter are vulnerable to price decreases in a weak economy. The corporate bonds the fund does hold are concentrated in high-quality companies like banks, utilities and telecoms.
- Stocks make up 25% of the fund. Sectors of focus include financial services, REITs, pipelines & energy, consumer products and utilities. These holdings have performed well this year and have boosted the fund's performance.
- The fund's equity strategy is focused on companies with strong balance sheets that are growing their dividend, as well as those with more stable earnings such as food retailers (including EMPIRE COMPANY, METRO, and LOBLAW COMPANIES) and telecoms (ROGERS, TELUS, and BCE). Two consumer products stocks were added to the portfolio in the quarter, SAPUTO GROUP (one of the top 10 dairy producers in the world) and PREMIUM BRANDS HOLDINGS (a specialty food manufacturing and distribution company).
- The fund paid a distribution of \$0.045/unit at the end of September.

### Positioning

- The fund's bond strategy remains cautious. The focus is on higher quality securities that also have good liquidity (i.e. they can easily be bought or sold).
- Stocks remain an important source of diversification and yield. The manager has a current bias towards larger cap, lower volatility stocks.

The fund was up 1.9% in the quarter. Since inception (Feb 2007), it has a cumulative return of 99%, which equates to an annualized return of 5.6%.

### Notable Stock Transactions

#### Buy

Saputo Group\*  
Premium Brands Holdings\*  
iA Financial Corporation\*  
Pembina Pipeline

\*New holding

#### Trim/Sell

ARC Resources<sup>1</sup>  
Vermilion Energy<sup>1</sup>  
Rogers Communications  
Manulife Financial

<sup>1</sup>Position eliminated

Fund size	\$86,962,500
Pre-fee Yield	2.5%
Avg Term to Matur.	11.3 yrs
Duration (Bonds)	8.3 yrs



## Income Fund

### Attributes

#### Top Holdings (% of Fund)

Ontario 3.15% (Jun/22)	7.2%
Quebec 3.50% (Dec/48)	5.7%
CHT 2.55% (Dec/23)	5.3%
Ontario 3.50% (Jun/24)	3.5%
Ontario 2.80% (Jun/48)	2.5%
Ontario 4.70% (Jun/37)	2.4%
CC&L High Yield Bond Fd	2.0%
Royal Bank	2.0%
BMO 1.61% (Oct/21)	1.9%
TD Bank	1.9%

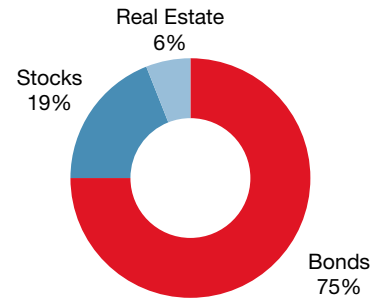
#### Issuer Allocation (Bonds)

Federal Government	20%
Provincial Government	45%
Corporate	35%

#### Rating Summary (Bonds)

AAA	23%
AA	55%
A	11%
BBB	10%
BB (or lower)	1%

#### Asset Mix



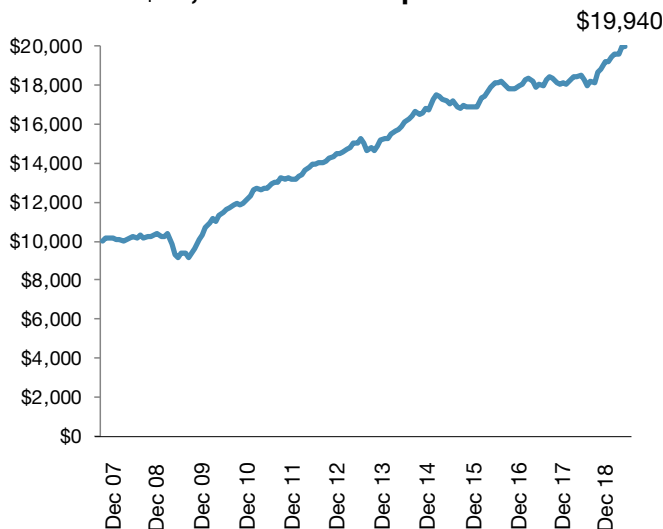
### Performance

#### Compound Annualized Returns (as of September 30, 2019)

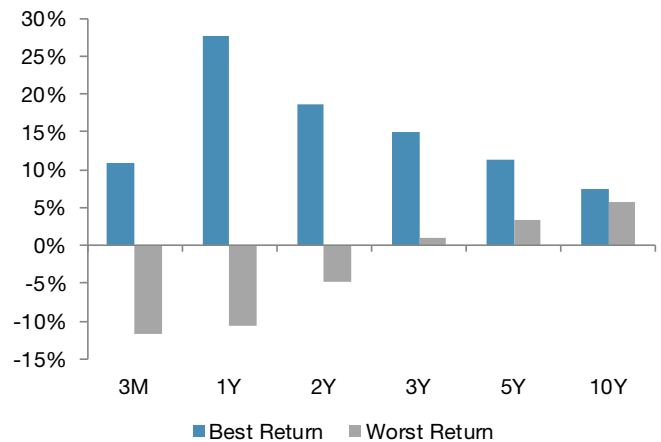
	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep*
<b>Income Fund (after-fee)</b>	<b>1.9%</b>	<b>10.0%</b>	<b>8.9%</b>	<b>5.3%</b>	<b>3.2%</b>	<b>3.9%</b>	<b>6.0%</b>	<b>5.6%</b>
FTSE TMX Canada Universe Bond Index	1.2%	7.8%	9.7%	5.6%	2.7%	3.9%	4.4%	4.7%
S&P/TSX Composite Index	2.5%	19.1%	7.1%	6.5%	7.4%	5.3%	7.0%	5.0%

\*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 2.5% in the quarter.
- Global stocks, as measured by the Morningstar Developed Markets Index, gained 1.7% in Canadian dollar terms.

### Portfolio Specifics

- The fund holds 25 stocks, of which 12 are headquartered in Canada, 7 overseas, 5 in the U.S., and 1 in Mexico.
- The fund had a flat quarter in spite of some large stock moves.
- The American holdings were solid performers, with CVS HEALTH leading the way. A federal judge who initially opposed the company's merger with Aetna (a health insurance firm) finally approved the deal, clearing an impediment that had weighed on the stock. CME GROUP, S&P GLOBAL and MICROSOFT also turned in strong results.
- Across the pond, Netherlands-based PHILIPS continues to execute on its transformation into a leading health technology company. It recorded impressive sales and saw a double-digit price gain. Dublin-based EXPERIAN, the world's largest credit data company, also had a good quarter as it continues to deliver solid revenue growth.
- RITCHIE BROS. AUCTIONEERS was a standout among the fund's Canadian holdings, rising over 20%. Ritchie recorded its highest ever gross transactions of \$1.5 billion. It also posted strong growth in its online channel and increased its dividend.
- CCL INDUSTRIES was the biggest detractor to performance. The Toronto-based specialty packaging company saw profits flatten out over the first half of the year, disappointing investors. The manager, Fiera Capital, likes the outlook for the industry and feels the company is still well positioned. SIKA also lost ground. The company, which makes specialty chemicals for the building sector and motor vehicle industry, has turned in strong revenues in 2019, but its profit growth has also slowed of late. Sika bought a French construction chemical company in January and plans to open 7-9 new plants this year as part of its growth strategy, which Fiera believes will pay off longer term.
- CRODA INTERNATIONAL was added to the fund. The U.K.-based company makes specialty chemicals for the health & beauty, plastics, and engine lubricants industries, with a focus on delivering innovative ingredients sustainably.
- The fund currently has a cash position of 1%.

The fund was up 0.8% in the quarter. Since inception (Feb 2007), it has a cumulative return of 125%, which equates to an annualized return of 6.6%.

### Notable Transactions

#### Buy

Croda International\*  
S&P Global  
Christian Hansen  
Ritchie Bros. Auctioneers  
\*New holding

#### Trim/Sell

Franco-Nevada  
CVS Health  
FEMSA

### Positioning

- The fund is comprised of 25 businesses operating in a diverse array of industries, from railroads to packaging to construction to software. The manager's focus is on best-in-class companies that generate strong cash flows, have good growth prospects, are well financed and have proven leaders at the helm.

Fund size	\$99,042,962
No. of stocks	25





## Equity Fund

### Attributes

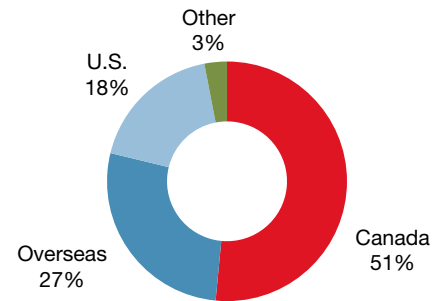
#### Top Stock Holdings

TD Bank	6.1%
Franco-Nevada	6.0%
Visa	5.9%
CME Group	5.6%
Suncor Energy	5.3%
Keyence	4.5%
CN Rail	4.5%
Ritchie Bros.	4.4%
Experian	4.4%
CCL Industries	4.3%

#### Sector Allocation (Stocks)

Industrial Goods & Svc	26.6%
Financial Services	24.3%
Basic Materials	10.1%
Oil & Gas	8.3%
Healthcare	8.1%
Technology	6.8%
Retailing	6.1%
Consumer Products	3.4%
Comm. & Media	3.2%
Consumer Cyclical	3.1%

#### Geographic Profile (Stocks)



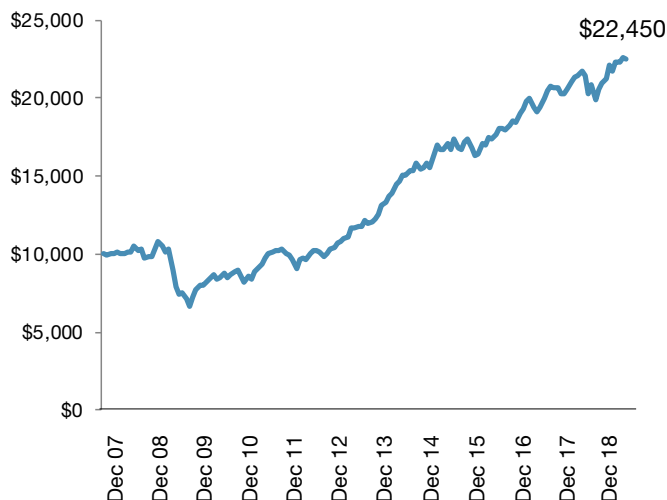
### Performance

#### Compound Annualized Returns (as of September 30, 2019)

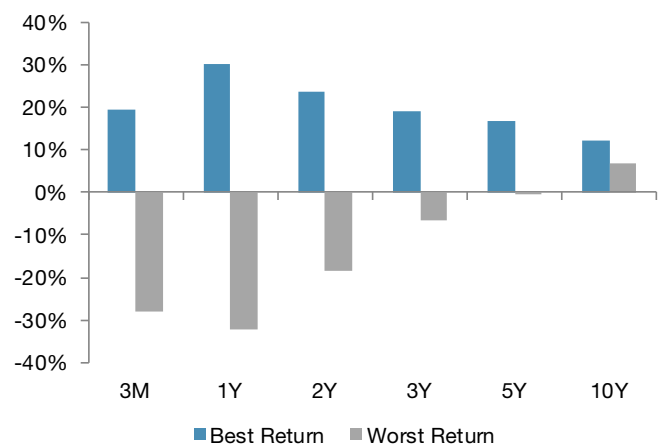
	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep <sup>1</sup>
<b>Equity Fund (after-fee)</b>	<b>0.8%</b>	<b>13.1%</b>	<b>4.7%</b>	<b>6.0%</b>	<b>7.6%</b>	<b>7.8%</b>	<b>9.9%</b>	<b>6.6%</b>
S&P/TSX Composite Index	2.5%	19.1%	7.1%	6.5%	7.4%	5.3%	7.0%	5.0%
Morningstar Developed Mkts Index (\$Cdn)	1.7%	13.6%	3.5%	9.0%	10.2%	10.9%	11.5%	6.4%

<sup>1</sup>Feb 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 1.7% in Canadian dollar terms in the quarter.
- Returns were positive in most regions. Major European markets were up 1-5% in local currency terms, the U.S. was up 2%, while emerging markets were down. The loonie gained 3% on the Euro but was little changed against most other currencies.

### Portfolio Specifics

- The fund holds 55 stocks, of which 22 are based in Europe (including the U.K.), 20 in the U.S., 10 in Asia, and 3 in Canada.
- The portfolio has struggled to keep pace with the market this year. It has much more of a focus on “value” companies — those with lower prices relative to fundamentals such as earnings and book value — and has more investments in unloved sectors of the market such as oil & gas services and healthcare.
- Two stocks were hit particularly hard in the quarter. BURFORD CAPITAL was attacked by short sellers after a negative report came out on the stock, and NORTHERN DRILLING was dragged down amidst negative sentiment in the offshore drilling market. Both companies remain solid businesses and stand to benefit from even the smallest bit of positive news or change in sentiment.
- As a testament to the manager’s strategy of seeking compelling turnaround opportunities, CGG and VISTRA ENERGY were two stocks that rebounded nicely. Both companies restructured their debt in recent years to improve their balance sheets, have strong management teams in place, and are executing well.
- SPIRE HEALTHCARE is an example of a holding that has compelling upside potential yet is being overlooked by most investors. Spire is the largest independent hospital group in the U.K. (by revenues), with a focus on orthopaedics (hip and knee replacements), oncology and general surgeries. The stock has been weighed down by weak short-term profits and the fact it derives all its revenues in the U.K. (which is mired in uncertainty because of Brexit). Velanne has a positive outlook because: (1) the company has put in place a new and talented executive team (CEO, CFO, COO) that is focused on driving change, (2) its clinical quality scores have increased significantly, and (3) a new marketing strategy is being put in place.
- One new stock was purchased, STELLA-JONES, a Canadian manufacturer of pressure treated wood products. TRIBUNE MEDIA and ANADARKO PETROLEUM were sold. Both companies were taken over in the quarter.
- The fund currently has a cash position of 3%.

The fund was down 1.3% in the quarter. Since inception (Feb 2007), it has a cumulative return of 31%, which equates to an annualized return of 2.2%.

### Notable Transactions

#### Buy

Stella-Jones\*  
 NN Group  
 Burford Capital  
 Wabtec

\*New holding

#### Trim/Sell

Anadarko Petroleum<sup>1</sup>  
 Tribune Media<sup>1</sup>

<sup>1</sup>Position eliminated

### Positioning

- Key areas of investment include healthcare, financial services, oil & gas services, consumer products, and media & entertainment companies.

Fund size	\$65,527,675
No. of stocks	55



## Global Equity Fund

### Attributes

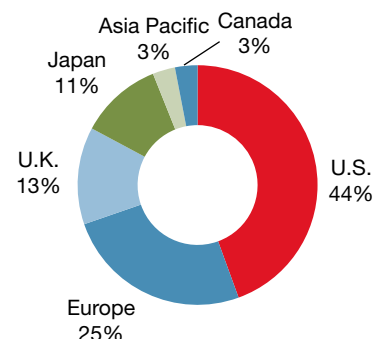
#### Top Stock Holdings

Alleghany Corporation	4.4%
Zimmer Biomet	4.2%
Medtronic	3.5%
Bayer	3.4%
Mowi	3.3%
Discovery, Inc.	3.2%
Heiwa Real Estate	3.1%
Walt Disney Company	3.1%
Konecranes	2.9%
NCR	2.7%

#### Sector Allocation (Stocks)

Healthcare	19.4%
Financial Services	19.0%
Oil & Gas	13.0%
Consumer Products	13.0%
Industrial Goods & Svc	11.8%
Comm. & Media	6.9%
Consumer Cyclical	5.7%
Real Estate	3.2%
Technology	2.7%
Retailing	2.5%
Utilities & Pipelines	2.5%
Basic Materials	0.3%

#### Geographic Profile (Stocks)



### Performance

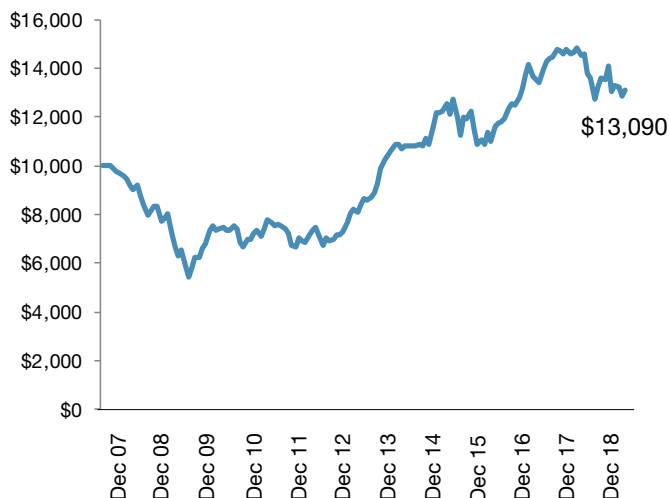
#### Compound Annualized Returns (as of September 30, 2019)

	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep <sup>1</sup>
<b>Global Equity Fund (after-fee)</b>	<b>-1.3%</b>	<b>2.6%</b>	<b>-10.3%</b>	<b>-3.1%</b>	<b>3.4%</b>	<b>3.8%</b>	<b>5.7%</b>	<b>2.2%</b>
Morningstar Developed Mkts Index (\$Cdn)*	1.7%	13.6%	3.5%	9.0%	10.2%	10.9%	11.5%	6.4%

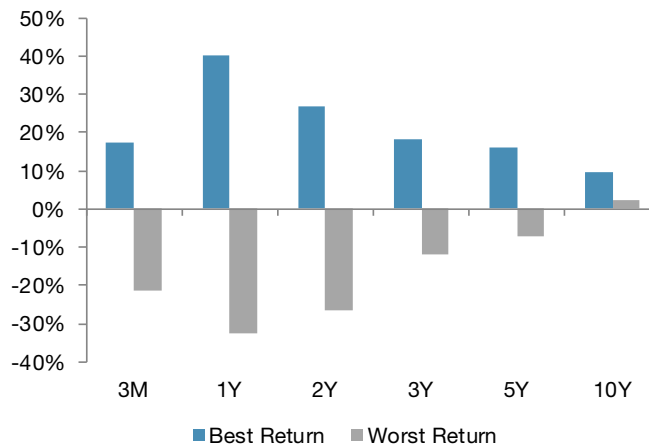
\*The fund has declined -10.3% since September 30, 2018, which is Velanne's starting date as portfolio advisor. The index is up 3.5% over the same period.

<sup>1</sup>Feb 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) declined 1.2% in the quarter. U.S. small-caps (Russell 2000 Index) also fell 1.2% in Canadian dollar terms.
- Real estate and gold stocks were strong while energy stocks were weak.

### Portfolio Specifics

- The fund consists of 24 companies, ranging from very small (WATERLOO BREWING) to medium-sized businesses (FINNING). While the majority of holdings are Canadian, there are 4 U.S. stocks which make up 19% of the portfolio.
- The fund pulled back in the quarter after a strong first half to 2019. There were some big price moves in the summer as trade wars and a slowing global economy took centre stage. ALCANNA, NFI GROUP and AG GROWTH were the biggest detractors to performance. Alcanna (a liquor and cannabis retailer) has been a victim of poor sentiment towards cannabis stocks, even though the company derives the vast majority of its revenues from liquor retailing. NFI (North America's leading bus and coach manufacturer) revised down its 2019 delivery forecasts because of production delays. And Ag Growth (a fertilizer and seed retailer) sold off as flooding-related crop damage in the Midwest cast a cloud over the sector. The manager, Galibier Capital Management, isn't fazed by these declines as they've all been driven by factors that are short-term in nature.
- On the positive side, CARGOJET continues to soar. The Mississauga-based cargo airline recently signed a long-term agreement with Amazon. The deal allows Amazon to acquire up to 15% of Cargojet over time. By locking up such an important strategic customer, Cargojet will further benefit from incremental business with the world's largest retailer.
- DREAM GLOBAL REIT was also a standout. The company, which owns and operates office and industrial properties in western Europe, agreed to be acquired by Blackstone Group, an American private equity firm. We sold the stock on the news, realizing a gain of 125% over our 3-year holding period.
- One new stock was added to the portfolio, PASON SYSTEMS. Pason is an oilfield specialist whose products and solutions allow its clients to access their critical drilling information anytime, anywhere. Pason is a best-in-class company with a durable competitive advantage, strong balance sheet, and attractive dividend yield (4.7%). Clients may be familiar with the stock, as we also own it in our Equity Fund.
- The fund currently has a cash position of 2%.

The fund was down 3.3% in the quarter. Since inception (Feb 2007), it has a cumulative return of 110%, which equates to an annualized return of 6.1%.

### Notable Transactions

#### Buy

Pason Systems\*  
Interfor Corporation  
Ag Growth International  
Stericycle

\*New holding

#### Trim/Sell

Dream Global REIT<sup>1</sup>  
Uni-Select<sup>1</sup>  
Cargojet  
Park Lawn

<sup>1</sup>Position eliminated

### Positioning

- The portfolio has a unique composition, with key areas of investment being capital goods, transportation, and commercial & professional services. Food & beverage and consumer companies are also important components of the fund. This is in contrast to the small-cap market's heavy focus on resource companies.

Fund size	\$49,641,429
No. of stocks	24



## Small-Cap Equity Fund

### Attributes

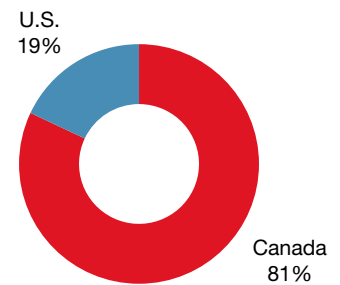
#### Top Stock Holdings

Ag Growth International	6.0%
Spin Master	5.2%
Stericycle	5.1%
NFI Group	5.0%
Oshkosh Corp.	4.8%
Interfor	4.8%
Henry Schein	4.4%
Parkland Fuel	4.3%
Winpak	4.3%
Stantec	4.3%

#### Sector Allocation (Stocks)

Industrial Goods & Svc	50.3%
Consumer Cyclical	16.0%
Oil & Gas	9.8%
Consumer Products	7.6%
Basic Materials	4.9%
Healthcare	4.5%
Utilities & Pipelines	3.6%
Retailing	3.3%

#### Geographic Profile (Stocks)



### Performance

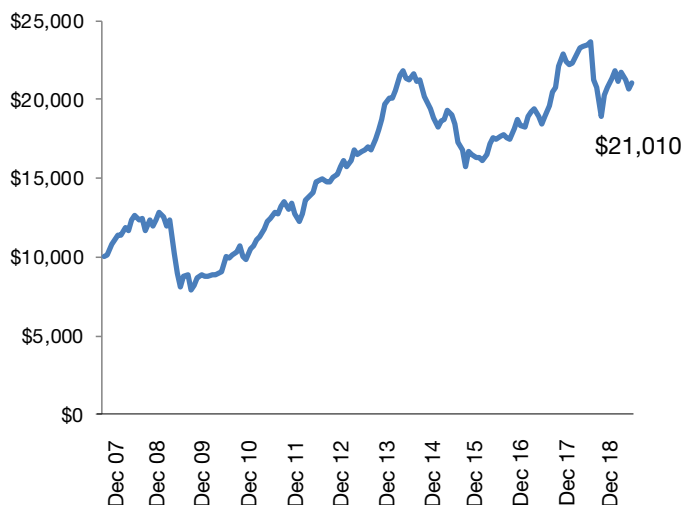
#### Compound Annualized Returns (as of September 30, 2019)

	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep <sup>1</sup>
<b>Small-Cap Equity Fund (after-fee)*</b>	<b>-3.3%</b>	<b>11.2%</b>	<b>-11.2%</b>	<b>3.4%</b>	<b>6.1%</b>	<b>0.8%</b>	<b>8.9%</b>	<b>6.1%</b>
S&P/TSX SmallCap Index	-1.2%	9.1%	-6.6%	-3.3%	-1.8%	0.1%	3.7%	0.9%
Russell 2000 Index (\$Cdn)	-1.2%	10.8%	-6.8%	5.6%	8.6%	11.9%	13.6%	7.6%

\*The fund has gained 19.3% since September 30, 2016, which is Galbier's starting date as portfolio advisor. The Canadian index is down -5.4% over the same period.

<sup>1</sup>Feb 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) declined 0.5% in the third quarter in Canadian dollar terms.
- Defensive stocks were solid performers while resource stocks lagged.

### Portfolio Specifics

- Securities regulations prohibit us from discussing performance until the fund reaches the 1-year mark. Our discussion will focus instead on the characteristics and investment merit of select holdings.
- The fund consists of 44 companies around the globe. Nineteen are headquartered in the U.S., 15 in Europe (including the U.K.), 8 in Japan, and 2 in Australia.
- RPM INTERNATIONAL is one of the fund's largest holdings. The company manufactures high-performance coatings, sealants, specialty chemicals and building materials for the construction and home improvement industries. Its brands include Rust-Oleum, Varathane, Tremco and Stonhard. While the business of coatings, cladding and adhesives isn't exactly sexy, RPM is the best in the world at what they do. And because it has a portfolio of leading products, the company has great pricing power. RPM has delivered consistent growth under all economic conditions and has increased its dividend for 45 consecutive years.
- The manager, TimesSquare Capital Management, is finding some compelling investments in Japan, specifically in the retailing sector. Holdings include ABC-MART (a popular athletic shoe retailer), IZUMI (a retailer of clothing, household goods and groceries), and ZOZO (an internet fashion company). ZoZo made headlines in the quarter as its billionaire founder (Yusaku Maezawa) agreed to sell most of his stake in the company to Yahoo Japan at a 20% premium. What all these companies have in common is their ability to innovate in an age-old industry.
- Another innovative holding in Japan is SUSHIRI GLOBAL, a recently-purchased stock that clients who have visited the country may be familiar with. The restaurant chain is a pioneer in using technology to make and serve sushi — using conveyor belts, robots, ordering tablets and self-serve registers — and is expanding globally. Sushiri offers high-quality food at good prices and should do well in a slower economy.
- Four stocks were sold in the quarter: EUROFINS SCIENTIFIC, DISCO CORPORATION, COSTAR GROUP and MODERN TIMES GROUP. They all remain solid businesses and were profitable investments, but could be challenged to meet higher growth expectations. In today's market environment, this can prove costly.

Regulations prohibit us from publishing performance figures until units of the fund have been distributed under a prospectus for more than 12 months.

### Notable Transactions

#### Buy

Sushiri Global\*  
Topdanmark  
Nordic Entertainment Group  
Cushman & Wakefield

\*New holding

#### Trim/Sell

Eurofins Scientific<sup>1</sup>  
Disco Corporation<sup>1</sup>  
CoStar Group<sup>1</sup>  
Modern Times Group<sup>1</sup>

<sup>1</sup>Position eliminated

### 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.
- This approach results in low weights in commodity-related businesses and utilities.

Fund size	\$4,812,243
No. of stocks	44



## Global Small-Cap Equity Fund

### Attributes

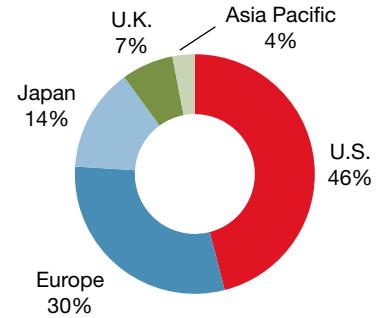
#### Top Stock Holdings

Teleperformance	4.7%
RPM International	4.6%
Gartner	3.7%
RenaissanceRe	3.7%
Wex	3.4%
St. James's Place	3.3%
Topdanmark	3.2%
Zozo	3.1%
Charles River Labs	3.1%
Orpea	3.1%

#### Sector Allocation (Stocks)

Financial Services	21.6%
Technology	18.6%
Industrial Goods & Svc	18.4%
Healthcare	13.5%
Consumer Cyclical	10.4%
Retailing	6.9%
Real Estate	5.1%
Consumer Products	2.5%
Oil & Gas	2.4%
Comm. & Media	0.6%

#### Geographic Profile (Stocks)



### Performance

Performance information is not available because the fund is a new fund.<sup>1</sup> Securities regulations prohibit us from showing performance figures until units of the fund have been distributed under a prospectus for more than 12 months.

<sup>1</sup>Inception date: February 15, 2019.

## 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. Its primarily an all-stock portfolio designed for growth-oriented investors.
- The underlying fund mix is managed by Salman Ahmed, with Tom Bradley as co-manager, and is a reflection of their views on market valuations.

Regulations prohibit us from publishing performance figures until units of the fund have been distributed under a prospectus for more than 12 months.

### Portfolio Specifics

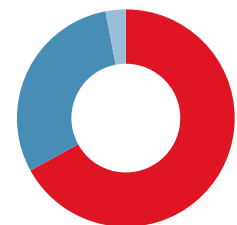
- Securities regulations prohibit us from discussing performance until the fund reaches the 1-year mark. Our discussion will focus instead on the fund’s composition.
- 67% of the fund is invested in foreign stocks. The Global Fund and Global Small-Cap Fund have the most latitude to invest outside our borders. The Equity Fund and Small-Cap Fund are both Canadian-centric in nature, but the managers have the flexibility to invest a portion of the funds’ assets in foreign companies.
- The fund is well diversified across industries and looks different than most Canadian portfolios. The largest sector weight, industrial goods & services, includes a diverse assortment of companies. Holdings include CAE (pilot training), KONECRANES (manufactures lifting equipment), TELEPERFORMANCE (outsourced customer service), and AG GROWTH (grain and seed storage).
- Other important sectors are also diverse in their makeup. In financial services, the fund owns TD BANK, BERKSHIRE HATHAWAY (insurance), CHALLENGER (annuities), LEGG MASON (asset management), and EXPERIAN (credit ratings), among others. It’s a far cry from owning five Canadian banks and insurers. In energy, investments include SUNCOR ENERGY (integrated producer), SCHLUMBERGER (oil services), and PASON SYSTEMS (drilling data solutions). And in healthcare, holdings include NOVARTIS (pharmaceuticals), ZIMMER BIOMET (medical devices), ORPEA (nursing care) and AMPLIFON (hearing aids).
- 30% of the fund is invested in Steadyhand’s two small-cap funds. These funds can experience more pronounced fluctuations over shorter periods but provide the opportunity for enhanced returns over the long term.
- Investors should expect the fund to stay fully invested in our underlying funds a vast majority of the time. The fund is designed to build wealth over a long time frame. There will be some cash in the portfolio, most of which will be from the reserves held in the underlying funds. Their cash levels will fluctuate due to the managers waiting for the right price to buy stocks or because of a recent sale. In some cases, cash can build up when there is a dearth of new investment opportunities.

#### Fund Mix

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



#### Asset Mix



Foreign Stocks	67%
Canadian Stocks	30%
Cash & Short-term	3%

Fund size \$52,823,575

### Positioning

- Refer to pages 6-15 for details on the underlying funds.





## Builders Fund

### Attributes

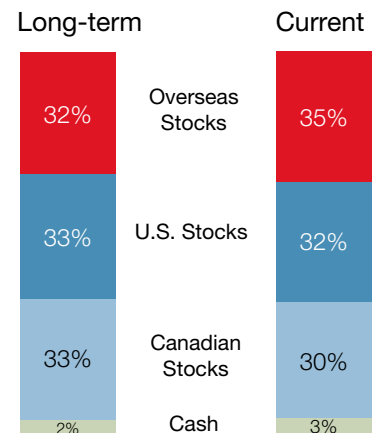
#### Top Stock Holdings (% of Fund)

TD Bank	2.2%
Franco-Nevada	2.1%
Visa	2.1%
CME Group	2.0%
Suncor Energy	1.9%
Keyence	1.6%
Pason Systems	1.6%
CN Rail	1.6%
Ritchie Bros.	1.6%
Experian	1.6%

#### Sector Allocation (Stocks)

Industrial Goods & Svc	23.0%
Financial Services	18.4%
Healthcare	12.3%
Oil & Gas	9.3%
Consumer Products	7.2%
Consumer Cyclical	7.0%
Technology	6.2%
Basic Materials	5.1%
Retailing	4.5%
Comm. & Media	3.6%
Real Estate	1.9%
Utilities & Pipelines	1.4%

#### Asset Mix



### Performance

Performance information is not available because the fund is a new fund.<sup>1</sup> Securities regulations prohibit us from showing performance figures until units of the fund have been distributed under a prospectus for more than 12 months.

<sup>1</sup>Inception date: February 15, 2019.



## Savings Fund

### Market Context

- The Bank of Canada left its key lending rate unchanged in the quarter, at 1.75%.
- In its September statement, the central bank highlighted that economic growth in Canada was strong in the second quarter, driven by robust export growth and stronger energy production. The Bank, however, expects economic activity to slow in the second half of the year. World trade has slowed as a result of ongoing disputes between the U.S. and China, and business investment has weakened. This heightened trade uncertainty, along with high levels of household debt, pose risks to our economy which the Bank will pay particular attention to.

### Positioning

- The manager’s (Connor, Clark & Lunn) preference for corporate paper continued to add value for the fund in the quarter. These securities, which include bank paper, floating rate notes and short-dated bonds, comprise 69% of the fund.
- Investments in T-Bills remain focused on provincial securities (31% of the fund).
- The pre-fee yield of the fund at the end of September was 1.9%.

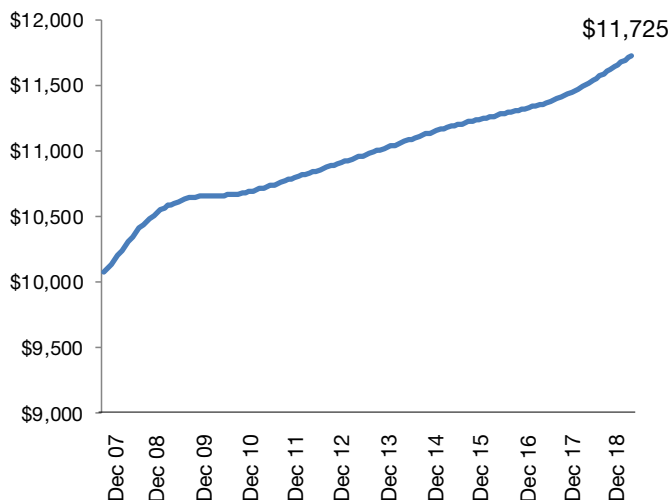
## Performance

### Compound Annualized Returns (as of September 30, 2019)

	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep*
<b>Savings Fund (after-fee)</b>	<b>0.4%</b>	<b>1.3%</b>	<b>1.8%</b>	<b>1.6%</b>	<b>1.3%</b>	<b>1.1%</b>	<b>1.0%</b>	<b>1.3%</b>
FTSE TMX Canada 91 Day T-Bill Index	0.4%	1.2%	1.7%	1.4%	1.1%	0.9%	0.9%	1.3%

\*Feb 13, 2007

### Growth of \$10,000 Since Inception



### Best and Worst Annualized Returns



## Politics and investing

Special to the National Post, by Tom Bradley, September 21, 2019

As a young analyst, it took me a few years to realize that the front section of the newspaper had virtually no impact on what was happening in the stock market. Sure, elections, government policy changes and strikes can move prices for a day or two, but they rarely have a lasting effect.

Stocks are driven by the companies' long-term profit outlook, which is more influenced by global factors than local. There's a perception that business-friendly political parties translate into higher stock prices, but there's little evidence of this. So, while we obsess about what's happening in Queen's Park, Ottawa and Washington, companies are expanding in other parts of the world where economies are growing rapidly.

That's not to say that stocks aren't impacted in the short term by news. Nor is it the case that there haven't been policies or events that have profoundly changed the prospects for a company or industry (the National Energy Program comes to mind). But when it comes to politics and investing, I live by something Charlie Munger said: "Heavy ideology is one of the most extreme distorters of human cognition."

### It's different this time

The 'different' phrase is often used to explain anomalies in the market, and rarely proves true. Nonetheless, it's fair to raise it here. Brexit, Trump's tax policies and trade tactics, and our politics around pipelines have affected some stocks profoundly. Lower tax rates instantly made U.S. corporations more profitable, while trade wars could break established supply chains and change the competitive landscape.

So yes, macro issues are having a bigger than usual effect on markets.

In the case of trade, the biggest impact is the uncertainty it creates. The potential for disruption has central bankers and governments scurrying to get ahead of possible negative outcomes. The banks are keeping interest rates near zero and governments continue to spend beyond their means.

Indeed, the concern I have with today's macro mayhem is that it's fuelling a fire that is already burning out of control. Brexit and other trade issues are contributing to our focus on the income statement, with seeming disregard for the balance sheet.

Let me explain.

### Living for today

A well-managed household, company or country finds a balance between revenue and expenses (income statement), and assets and liabilities (balance sheet). Both need to be under control, but sometimes one requires more attention than the other.

For instance, after making a large purchase or investment (buying a house, making a business acquisition or weathering a recession), prudence dictates that the focus shift to the balance sheet. Finances are stretched after these outlays. There's less room to make additional purchases and less cushion to deal with setbacks. Balance needs to be restored.

Unfortunately, ultra-low interest rates and continued borrowing are seemingly the solution to every problem or slowdown these days. We're running up our credit cards and line of credit to maintain a lifestyle that isn't supported by economic productivity and growth in the working population. We're forgetting about our balance sheets even though we're still in the shadow of the 2008 debt crisis.

### Staying power

The ever more bizarre political landscape is worrying many investors, but the risk that has the most potential to alter the path of portfolios isn't the lead story on the national news. Non-stop monetary and fiscal stimulus has left us with a severely strained balance sheet and no tools to fix it.

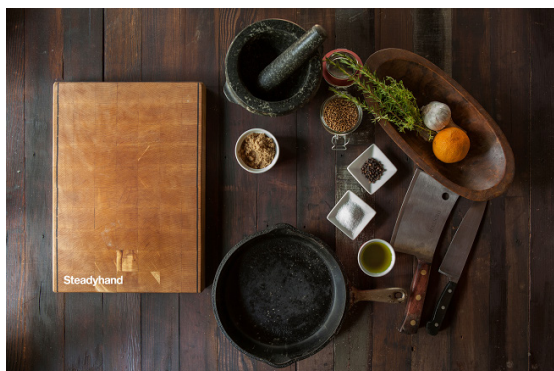
Debt per unit of economic activity (GDP) is steadily rising, at the same time as capital markets are defying the rules of finance. I'm referring to the global anomaly of bond investors paying for the privilege of lending money (negative yields), and stock investors buying companies that have only a distant prospect of earning a profit.

Today, we're being encouraged to take risk and keep up with the Joneses, but it's our balance sheets that need the attention at this late stage of the economic and market cycle. When households, companies and governments are playing close to the edge, staying power is paramount.

As an investor, that means not letting your asset mix drift towards higher risk (than your plan calls for), owning some government bonds that will provide a return in a recession and not pursuing any strategy that's predicated on the next five years being as stimulated as the last five.



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

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The performance data provided for the Steadyhand Savings Fund assumes reinvestment of distributions only and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. The indicated rates of return for the funds other than the Savings Fund are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual fund securities are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. There can be no assurances that the funds will be able to maintain their net asset value per security at a constant amount or that the full amount of your investment in the funds will be returned to you. Past performance may not be repeated.

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