

# Steadyhand

## Q2 2020

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“There’s no doubt the range of possible outcomes is still very wide ... we don’t believe it’s the time to act boldly based on one view of the world.”

— Tom Bradley



## Bradley's Brief



If you're confused, you're not alone. I am too. The bounce back in stocks after the March selloff wasn't a surprise, but the magnitude and power of it has been.

It doesn't feel like a V-shaped market recovery (straight back up after the down) fits with the social and economic outlook. Nor does it make sense that consensus estimates for U.S. corporate profits in 2021 and 2022 show a quick recovery to levels above a very robust 2019.

When confused, we go back to our 3-part analytical framework: fundamentals, valuations, and investor sentiment.

*Fundamentals* is a catch-all for the economic factors that impact corporate profits (which drive markets). On this front, it's become apparent that reopening the economy won't be easy. Government support will come to an end (taxpayers can't afford to maintain the current level of assistance) and there will be plenty of missteps. We won't know the true state of the economy until the subsidy tap is turned off. Not until then will we know how families are doing and if businesses that are running far below capacity can afford their rent and loan payments.

I'm a big believer in the adaptability of human beings and organizations. The planet will adjust to the new normal quicker than most people think, but there's no doubt the range of possible outcomes is still very wide.

*Valuation*, the price we pay for an asset, helps make sense of what we don't understand on the fundamentals front, but there are crosscurrents here too. The bond market's low yields are telling us there's trouble ahead, as are large parts of the stock market. Stock prices for companies that are economically sensitive, involve the movement of goods and people, and/or are reliant on human contact, are far below their previous highs. Investors are taking the view that 'things will never be the same' and as a result, price-to-earnings multiples reflect a subdued recovery.

The 'never the same' scenario, however, has had the opposite effect on firms that did well during the lockdown. This select group, mostly technology based, have seen their profit expectations and valuations skyrocket. Here, investors are focusing on the positive end of the range.

The one valuation input that impacts all stocks is interest rates. Rates, which have been low for some time, have gone lower and are expected to stay there. This is important for stocks — lower rates translate into higher P/E multiples — and goes a long way to explaining the market's recent rise.

*Investor sentiment* is the part of the framework that helps us act when expectations (fundamentals) and/or valuations are at extremes. How optimistic or fearful people are, is a useful contrarian indicator at times when investors are overwhelmingly bullish (or bearish). Indeed, when stocks were melting down in March, we were able to chin ourselves up to buy equities partly because the panic was palpable. The risks were in plain view.

Today, sentiment is just as confusing as the fundamentals. There's a general belief that the future will be difficult (bearish), but there's also a confident contingent of investors who are actively trading stocks and snapping up risky, high-yield bonds.

In your Steadyhand portfolio, we're taking both views into account. As you'll see in this report, we have stocks that are benefiting from the 'never the same' scenario and others that must prove themselves. We're OK with this blend because we don't believe it's the time to act boldly based on one view of the world.

## Key Takeaways

### Stocks

- Stocks rebounded with vigour in the second quarter as economies reopened and investor confidence improved. The U.S. market (S&P 500 Index) rallied 20% to record its best quarterly gain in over two decades. European, Asian and emerging market stocks also saw strong advances.
- The Canadian market (S&P/TSX Composite Index) rose 17.0%. Gold, technology, and consumer discretionary stocks were among the strongest performers.
- The loonie appreciated against the U.S. dollar (+5%), Japanese Yen (+4%) and Euro (+2%). This dampened the gains of foreign stocks for Canadian investors.

### Bonds

- Bonds had a strong quarter, as yields declined to near-historic lows (when yields fall, bond prices rise). The FTSE Canada Universe Bond Index rose 5.9%.
- The Bank of Canada left its key short-term lending rate unchanged at 0.25%. The 10-year Government of Canada bond yield fell from 0.7% to 0.5%.
- Corporate bonds were the top performers. The high yield sector gained nearly 10% as investors embraced risk again.

### Our Funds

- Our funds had a solid quarter, with the equity funds all posting double-digit gains. Our two small-cap funds were the top performers, as riskier assets in general fared better. Our balanced clients' portfolios were up 10% to 11%. Over the past 10 years, our balanced returns were roughly 7% per year.
- The stock weighting in the Founders Fund was kept slightly higher than normal, at 63% to 65%, after some significant stock purchases in March.
- In the context of our balanced portfolios, key transactions included the purchase of SAFRAN (France), FLUGHAFEN ZUERICH (Switzerland), and TOREX GOLD RESOURCES (Canada); and the sale of ALTRIA (U.S.), VARCO (U.S.) and ALCANNA (Canada).

## Our Advice to Clients

We recommend that your equity weighting be at, or slightly above, your long-term target. In the Founders Fund, our stock weighting is 63%, which is above the 60% target. We feel valuations remain attractive, particularly in sectors that haven't fully participated in the rally. If you bought equities in March, your stock weighting may be considerably higher now and some rebalancing may be necessary. 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, 12% 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	17.0%	-2.2%
World	14.5%	6.2%

	3M	1Y
Bonds	5.9%	7.9%

### Fund Returns

	3M	1Y
Savings	0.3%	1.5%
Income	7.3%	3.4%
Founders	10.6%	-0.5%
Builders	14.5%	-5.6%
Equity	12.6%	3.5%
Global	10.4%	-14.8%
Small-Cap	27.9%	-14.0%
Global Small-Cap	16.2%	2.1%



## 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, our Chief Investment Officer, manages the fund and Salman Ahmed is co-manager. 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

- In the second quarter, stocks and bonds experienced a dramatic turnaround and Founders was up 10.6% (after fees). Year-to-date, it is down 3.4%.
- The fund benefited from significant (and fortuitous) purchases of stocks during the later stages of the market meltdown in March. Our commitment to 'going up with as much or more than we went down with' enhanced returns in the second quarter, although as always, results were driven by the performance of the underlying funds.
- This quarter, the bonds (in the Income Fund) did exceptionally well. Declining interest rates (yes, even lower) and some economic green shoots were particularly helpful to our large holdings in provincial government and corporate bonds.
- As referenced in Bradley's Brief, we hold a diverse set of stocks in our portfolios. Some are expected to benefit from the new economic order, while others are clouded with uncertainty. The former group has done well, driven mostly by expanding valuations. The stocks in the latter group, however, are still well below their highs and are carrying conservative valuations. In our fund lineup, this dichotomy reveals itself in the performance gap between the Equity and Global Equity Funds. The Equity Fund has benefited from large holdings like Franco-Nevada, Keyence, Visa, and Microsoft and is flat on the year. The Global Equity Fund has more of an emphasis on oversold cyclical stocks, including energy and aviation, which are still languishing under low expectations. The fund is down 20% year-to-date.
- The biggest transactions during the quarter (in the underlying funds) were the purchase of new positions in SAFRAN (jet engines), FLUGHAFEN ZUERICH (Zurich airport) and TOREX GOLD RESOURCES. On the sell side, we eliminated ALTRIA, VARCO and ALCANNA.

### Positioning

- The Founders is always looking for a balance between reward and risk. In March, we shifted more towards offence by adding to stocks. We've maintained this position, although the market's rise forced us to do some rebalancing (i.e. trimming stocks).
- We're concerned about what the post-lockdown economy will look like, but near-zero interest rates make stocks more attractive versus fixed income and our stocks are more reasonably priced than the indexes.
- For more details on the underlying funds, please review pages 8-18.

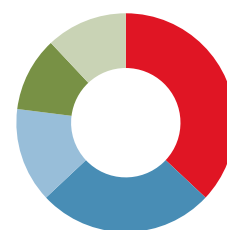
The fund was up 10.6% in the quarter. Since inception (Feb 2012), it has a cumulative return of 62%, which equates to an annualized return of 5.9%.

#### Fund Mix

Income	34%
Global	22%
Equity	20%
Small-Cap	8%
Global Small-Cap	6%
Cash	10%



#### Asset Mix



Foreign Stocks	37%
Canadian Stocks	26%
Gov't Bonds	14%
Corporate Bonds	11%
Cash & Short-term	12%

Fund size \$479,844,067

## Founders Fund

### Attributes

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

Franco-Nevada	1.8%
CN Rail	1.7%
TD Bank	1.6%
Keyence	1.4%
Visa	1.3%
Bayer	1.2%
Brookfield Renewable	1.2%
Zimmer Biomet	1.2%
Telus	1.2%
Heiwa Real Estate	1.2%

#### Sector Allocation (Stocks)

Industrial Goods & Svc	22.4%
Financial Services	19.1%
Healthcare	11.7%
Technology	6.7%
Consumer Products	6.3%
Utilities & Pipelines	5.7%
Basic Materials	5.6%
Consumer Cyclical	5.5%
Comm. & Media	5.1%
Real Estate	5.0%
Oil & Gas	4.2%
Retailing	2.7%

#### Asset Mix

Long-term		Current
17%	Overseas Stocks	19%
17%	U.S. Stocks	18%
26%	Canadian Stocks	26%
35%	Bonds	25%
5%	Cash	12%

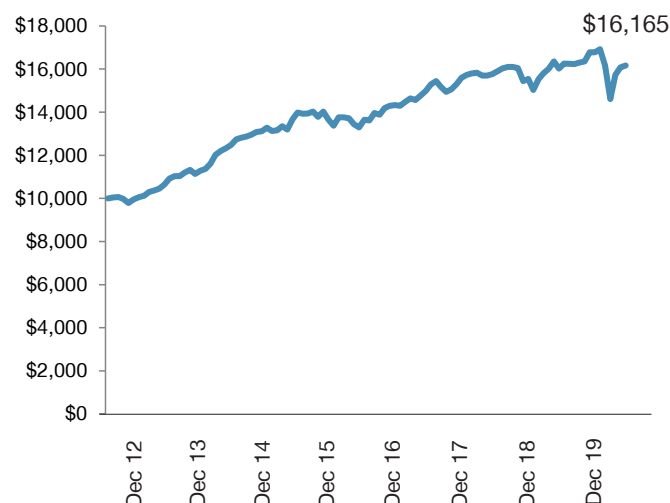
### Performance

#### Compound Annualized Returns (as of June 30, 2020)

	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep <sup>1</sup>
<b>Founders Fund (after-fee)</b>	<b>10.6%</b>	<b>-3.7%</b>	<b>-0.5%</b>	<b>0.4%</b>	<b>2.2%</b>	<b>3.2%</b>	<b>N/A</b>	<b>5.9%</b>
FTSE Canada Universe Bond Index	5.9%	7.5%	7.9%	7.6%	5.3%	4.2%	N/A	4.1%
S&P/TSX Composite Index	17.0%	-7.5%	-2.2%	0.8%	3.9%	4.5%	N/A	5.8%
Morningstar Developed Mkts Index (\$Cdn)	14.5%	-1.8%	6.2%	5.4%	7.8%	8.5%	N/A	12.8%

<sup>1</sup>Feb 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 Salman Ahmed, with Tom Bradley as co-manager, and is a reflection of their views on market valuations.

The fund was up 14.5% in the quarter. Since inception (Feb 2019), it has a cumulative return of -3%, which equates to an annualized return of -2.2%.

### Portfolio Specifics

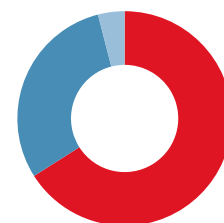
- Stock markets around the world rebounded in the second quarter after sharp declines earlier in the year. The bounce back was among the fastest on record. All our equity-focused funds experienced double-digit returns in this environment.
- In keeping with its growth objective, the Builders Fund holds 15% of its assets in each of our two small-cap funds. Over the long run, these companies provide the opportunity for superior returns but can experience more pronounced fluctuations over short periods. This positioning hurt the fund in the first quarter but helped this period as the Small-Cap Equity Fund and Global Small-Cap Equity Fund were our best performing funds.
- Overall, the Builders Fund has lagged year-to-date. Despite the recovery in Q2, small-cap stocks have underperformed their larger peers in 2020 and our Global Equity Fund's contrarian nature has kept it away from the two best performing sectors — technology and precious metals.
- All our managers have been more active than usual as they respond to the evolving economic reality. They purchased several new holdings and added to existing positions. They also trimmed or sold certain stocks when their outlook changed. For example, our Equity Fund manager, Fiera Capital, has bought four new stocks and sold four this year. Meanwhile our Global Equity Fund manager, Velanne Asset Management, has bought 10 new companies and eliminated 16.
- Builders continues to be 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 CN RAIL, KONECRANES (lifting equipment), Sika (specialty chemicals), and FINNING (Caterpillar dealer).
- Other important sectors are also diverse in their makeup. In financial services, the fund owns TD BANK, TOPDANMARK (insurance), ARTISAN PARTNERS (asset management), and EXPERIAN (credit ratings), among others. It's a far cry from owning five Canadian banks and insurers.

#### Fund Mix

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



#### Asset Mix



Foreign Stocks	66%
Canadian Stocks	30%
Cash & Short-term	4%

### Positioning

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

Fund size \$75,501,878



## Builders Fund

### Attributes

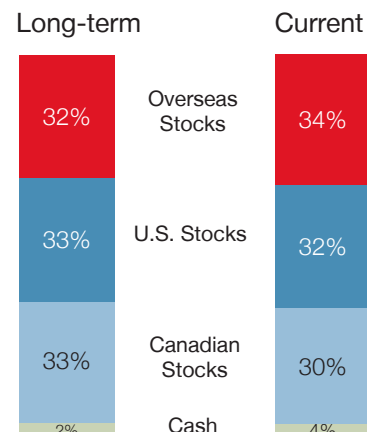
#### Top Stock Holdings (% of Fund)

Franco-Nevada	2.9%
Keyence	2.2%
Visa	2.1%
CN Rail	1.8%
Sika	1.8%
Brookfield Renewable	1.7%
Bayer	1.7%
Experian	1.7%
Zimmer Biomet	1.7%
Heiwa Real Estate	1.6%

#### Sector Allocation (Stocks)

Industrial Goods & Svc	24.3%
Financial Services	18.0%
Healthcare	13.3%
Technology	7.9%
Consumer Products	6.8%
Basic Materials	6.7%
Consumer Cyclical	6.6%
Oil & Gas	4.5%
Comm. & Media	3.8%
Utilities & Pipelines	3.7%
Real Estate	2.3%
Retailing	2.1%

#### Asset Mix



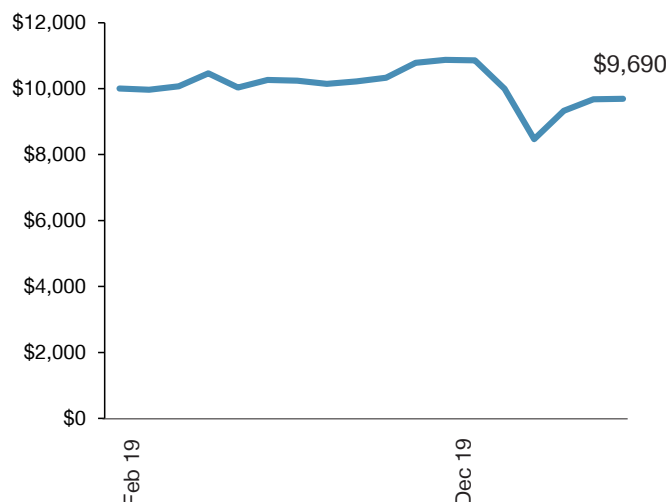
### Performance

#### Compound Annualized Returns (as of June 30, 2020)

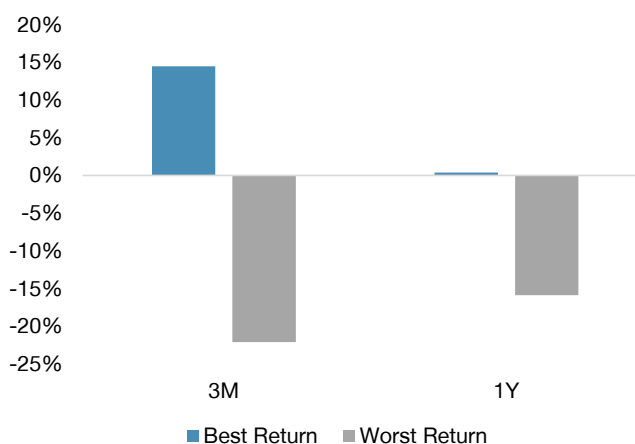
	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep <sup>1</sup>
<b>Builders Fund (after-fee)</b>	<b>14.5%</b>	<b>-10.8%</b>	<b>-5.6%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>-2.2%</b>
Morningstar Developed Mkts Index (\$Cdn)	14.5%	-1.8%	6.2%	N/A	N/A	N/A	N/A	5.2%
S&P/TSX Composite Index	17.0%	-7.5%	-2.2%	N/A	N/A	N/A	N/A	1.8%

<sup>1</sup>Feb 15, 2019

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



#### Best and Worst Annualized Returns





## Income Fund

### Market Context

- The Canadian bond market gained 5.9% in the quarter (interest and capital appreciation).
- Investors continued to embrace the safety of bonds in an uncertain economy. The 10-year Government of Canada bond yield fell from 0.7% to 0.5%.
- Canadian stocks gained 17.0% on strength in gold, resource, technology and consumer discretionary stocks.

The fund was up 7.3% in the quarter. Since inception (Feb 2007), it has a cumulative return of 102%, which equates to an annualized return of 5.4%.

### Portfolio Specifics

- Bonds comprise 73% of the portfolio. The fund's holdings had a strong quarter as yields declined to near-historic lows (when yields fall, bond prices rise).
- Corporate bonds provided the best returns as credit spreads (the difference in yield between corporate and government bonds) compressed and the fund was well positioned in the sector. It's focused on high-quality and liquid (easy to trade) companies with stable earnings. Examples include banks (TD, ROYAL, BMO), utilities (HYDRO ONE, FORTIS, CU), and telecom bonds (TELUS, BCE, ROGERS).
- Provincial bonds also performed well. These securities make up nearly one-third of the portfolio, a majority of which are bonds issued by Ontario and Quebec.
- We modestly increased the fund's credit exposure — i.e. corporate and provincial bonds — as there are early indications that economic activity may have already bottomed. Also, the Bank of Canada is committed to supporting these bonds through its large scale asset purchase program, which is a positive for both sectors relative to Government of Canada bonds.
- CC&L believes interest rates will remain low in the near term as central banks remain vigilant in ensuring there is adequate stimulus to fuel an economic recovery.
- The fund's dividend stocks and REIT holdings performed well but lagged the broader market. We don't own any gold and have limited exposure to technology — two of the hotter sectors this quarter — as these stocks have more volatile earnings and typically don't pay stable dividends. Our investments instead are focused on more defensive, steady cash-generating companies such as consumer staples, food & beverage, banks, insurance, telecoms and utilities.
- The fund paid a distribution of \$0.045/unit at the end of June.

### Notable Stock Transactions

#### Buy

Rogers Communications\*  
 Brookfield Renewable  
 Partners L.P.\*  
 Minto Apartment REIT\*  
 Gibson Energy\*

\*New holding

#### Trim/Sell

Allied Properties REIT<sup>1</sup>  
 Suncor Energy<sup>1</sup>  
 Brookfield Property  
 Partners L.P.<sup>1</sup>  
 Manulife

<sup>1</sup>Position eliminated

### Positioning

- The fund's bond strategy remains defensive, but the manager is seeing pockets of opportunity emerge in corporate bonds.
- Stocks remain an important source of diversification and yield and make up 27% of the fund. The manager has a current bias towards larger cap, lower volatility stocks.

Fund size	\$82,685,116
Pre-fee Yield	2.3%
Avg Term to Matur.	11.3 yrs
Duration (Bonds)	8.5 yrs





## Income Fund

### Attributes

#### Top Holdings (% of Fund)

Ontario 2.60% (Jun/25)	4.0%
Quebec 1.90% (Sep/30)	3.5%
Ontario 4.70% (Jun/37)	3.2%
CC&L High Yield Bond Fd	3.1%
Royal Bank	2.3%
Canada T-Bills 0.19%	2.3%
Ontario 2.70% (Dec/29)	2.2%
Canada 0.50% (Dec/50)	2.0%
Quebec 3.75% (Sep/24)	2.0%
Canadian Apartment Ppty	1.8%

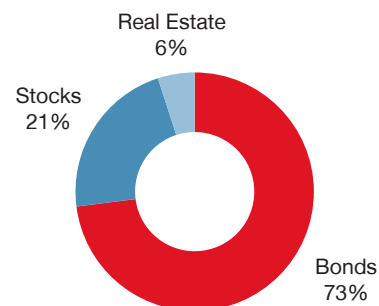
#### Issuer Allocation (Bonds)

Federal Government	10%
Provincial Government	44%
Corporate	46%

#### Rating Summary (Bonds)

AAA	12%
AA	45%
A	26%
BBB	14%
BB (or lower)	3%

#### Asset Mix



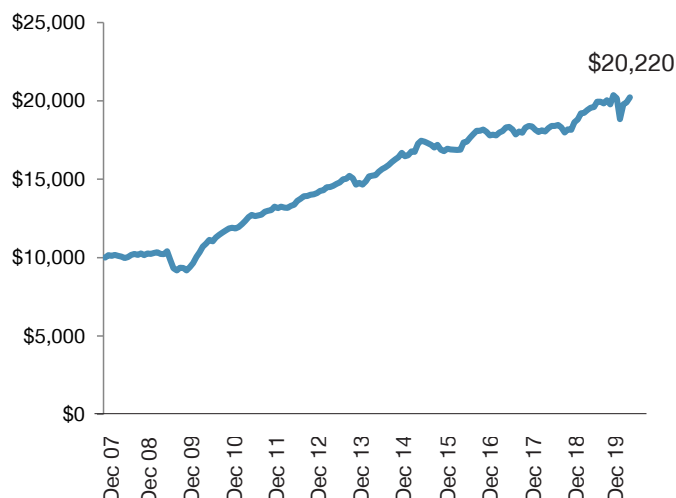
### Performance

#### Compound Annualized Returns (as of June 30, 2020)

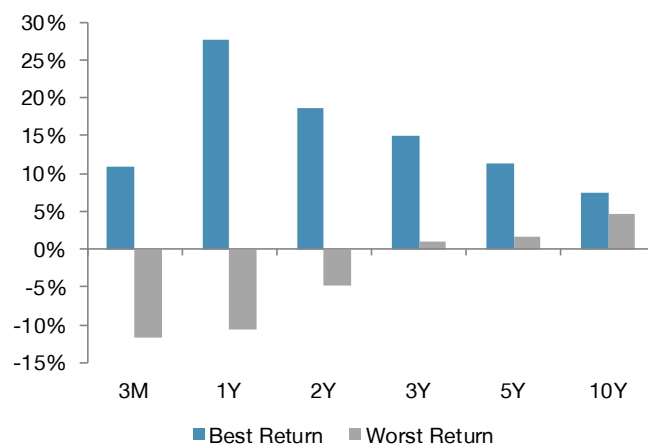
	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep*
<b>Income Fund (after-fee)</b>	<b>7.3%</b>	<b>2.3%</b>	<b>3.4%</b>	<b>4.8%</b>	<b>3.6%</b>	<b>3.5%</b>	<b>5.4%</b>	<b>5.4%</b>
FTSE Canada Universe Bond Index	5.9%	7.5%	7.9%	7.6%	5.3%	4.2%	4.6%	4.9%
S&P/TSX Composite Index	17.0%	-7.5%	-2.2%	0.8%	3.9%	4.5%	6.3%	4.4%

\*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 17.0% in the second quarter, with gold, technology, and resource stocks leading the way.
- Global stocks, as measured by the Morningstar Developed Markets Index, gained 14.5% in Canadian dollar terms.

## Portfolio Specifics

- The fund holds 24 stocks, of which 13 are headquartered in Canada, 6 in the U.S., and 5 overseas.
- The Q2 market rebound was significant. Many of the fund's holdings fully recovered their losses from the first quarter. MAGNA INTERNATIONAL, KEYENCE, FRANCO-NEVADA and S&P GLOBAL were the top performers, each gaining more than 30%. On a year-to-date basis, the portfolio has held up extremely well in an unprecedented environment that saw many businesses and countries forced to lock down.
- The fund's primary focus continues to be on high-quality companies with sustainable business models and steady growth outlooks. Top holdings include KEYENCE (makes vision systems and sensors for robotics and factory automation), MICROSOFT (a software giant that's increasingly benefiting from the digital transformation trend), BROOKFIELD RENEWABLE PARTNERS (a global leader in renewable power), DANAHER (a diversified healthcare company playing an important role in the fight against COVID-19) and VISA (the leader in global payments). These businesses have the financial strength to withstand a period of slower global growth and the wherewithal to come out stronger on the other side.
- A smaller portion of the portfolio is invested in more cyclical (economically-sensitive) companies, including CAE (flight simulators), SUNCOR ENERGY (oil producer), and MAGNA INTERNATIONAL (auto parts). Each of these stocks was trimmed on price strength in an effort to reduce the fund's exposure to businesses that may face greater headwinds going forward. That said, the manager (Fiera Capital) still sees the diversification value in owning businesses closely tied to commodity prices and discretionary spending.
- TD BANK was also trimmed. The company (the fund's only Canadian bank holding since inception) is a leading franchise in Fiera's view, but the industry faces challenges in the form of near-zero interest rates and a highly indebted Canadian consumer.
- No new stocks were added to the portfolio, but additional shares of MICROSOFT, NOVARTIS, TELUS, BROOKFIELD RENEWABLE PARTNERS, and PHILIPS were purchased.
- The fund currently has a cash position of 3%.

## Positioning

- The fund is comprised of two dozen businesses operating in a diverse array of industries with a focus on profitable, best-in-class companies that are well financed.

The fund was up 12.6% in the quarter. Since inception (Feb 2007), it has a cumulative return of 131%, which equates to an annualized return of 6.4%.

## Notable Transactions

### Buy

Microsoft  
Novartis  
Telus  
Philips  
Brookfield Renewable Partners L.P.

### Trim

CAE  
Suncor Energy  
Magna International  
CME Group

Fund size	\$91,211,017
No. of stocks	24



## Equity Fund

### Attributes

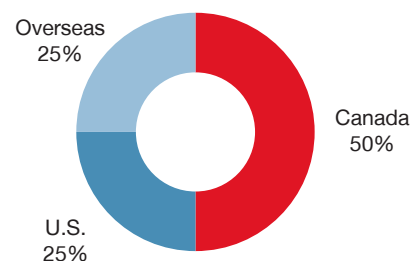
#### Top Stock Holdings

Franco-Nevada	8.3%
Keyence	6.3%
Visa	6.0%
CN Rail	5.1%
Sika	5.1%
Brookfield Renewable	5.0%
Experian	4.8%
Danaher	4.7%
TD Bank	4.4%
Microsoft	4.4%

#### Sector Allocation (Stocks)

Industrial Goods & Svc	23.2%
Financial Services	23.0%
Technology	13.6%
Healthcare	12.5%
Basic Materials	12.0%
Utilities & Pipelines	5.1%
Comm. & Media	4.1%
Oil & Gas	2.3%
Retailing	2.2%
Consumer Cyclical	2.0%

#### Geographic Profile (Stocks)



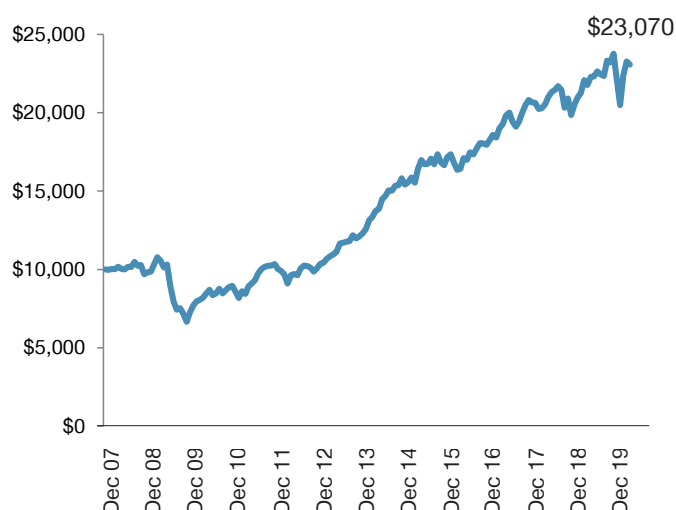
### Performance

#### Compound Annualized Returns (as of June 30, 2020)

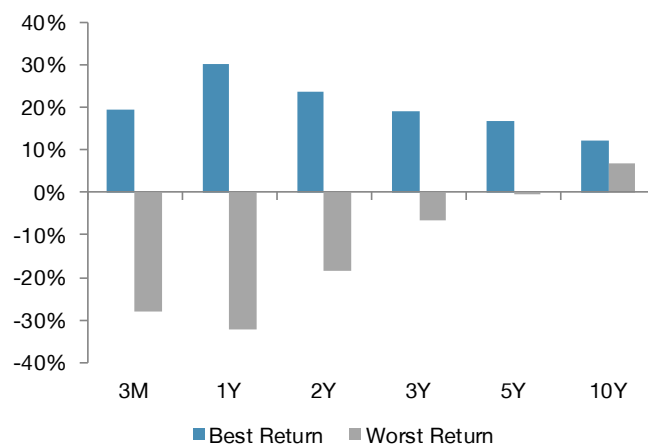
	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep <sup>1</sup>
<b>Equity Fund (after-fee)</b>	<b>12.6%</b>	<b>-0.6%</b>	<b>3.5%</b>	<b>4.1%</b>	<b>5.9%</b>	<b>6.7%</b>	<b>10.9%</b>	<b>6.4%</b>
S&P/TSX Composite Index	17.0%	-7.5%	-2.2%	0.8%	3.9%	4.5%	6.3%	4.4%
Morningstar Developed Mkts Index (\$Cdn)	14.5%	-1.8%	6.2%	5.4%	7.8%	8.5%	12.7%	6.5%

<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 14.5% in Canadian dollar terms in the second quarter.
- Returns were robust in most regions. European markets were up 10-20% in local currency terms, while the U.S. and Japanese markets were up around 20%. The loonie rose against most major currencies, which dampened returns for Canadian investors.

### Portfolio Specifics

- The fund holds 48 stocks, of which 20 are based in the U.S., 15 in Europe, 6 in the U.K., 5 in Asia, and 2 in Canada.
- Several holdings experienced significant gains over the quarter. Specifically, energy investments and financials saw sharp increases. Canadian energy producer CENOVUS and U.S.-based investment manager BRIGHTSPHERE saw their stock prices double. Energy services providers HALLIBURTON (+90%), SCHLUMBERGER (+37%) and asset manager ARTISAN PARTNERS (+50%) also experienced a strong rebound.
- In spite of these healthy stock gains, the fund has lagged the broader market which has been led by technology and precious metals companies. The manager's (Velanne Asset Management) contrarian nature has kept it away from the hot areas of the market. Instead, it has found more compelling ideas in cyclical names that are currently out-for-favour but provide attractive upside.
- Four new holdings were added to the fund: INFORMA organizes trade shows and publishes industry journals; SAFRAN builds and maintains airplane engines; WOODWARD manufactures components for the aviation industry; and FLUGHAFEN ZUERICH operates the Zurich airport and has ownership stakes in others.
- Aerospace-related investments account for 8% of the fund. Velanne doesn't expect a quick return to old travel habits, but there continues to be strong demand from emerging markets — specifically for domestic and short-haul flights. For example, China's domestic capacity has already returned to 75% of pre-pandemic levels. The demand fundamentals and strong balance sheets of these high-quality companies make them attractive investments.
- Six stocks were sold. Proceeds from NATIONAL OILWELL VARCO and JXTG were used to add to SCHLUMBERGER, SHELL, and HALLIBURTON, which are higher quality energy companies in Velanne's view. KCC CORP., KCC GLASS, HYUNDAI HOME SHOPPING and ALTRIA were sold to make room for stocks with better return potential.
- The fund currently has a cash position of 2%.

The fund was up 10.4% in the quarter. Since inception (Feb 2007), it has a cumulative return of 13%, which equates to an annualized return of 0.9%.

### Notable Transactions

#### Buy

Safran\*  
Flughafen Zuerich\*  
Informa\*  
Woodward\*  
Elis  
\*New holding

#### Trim/Sell

JXTG Holdings<sup>1</sup>  
KCC Corporation<sup>1</sup>  
Hyundai Home Shopping<sup>1</sup>  
Altria<sup>1</sup>  
National Oilwell Varco<sup>1</sup>

<sup>1</sup>Position eliminated

### Positioning

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

Fund size	\$50,645,180
No. of stocks	48



## Global Equity Fund

### Attributes

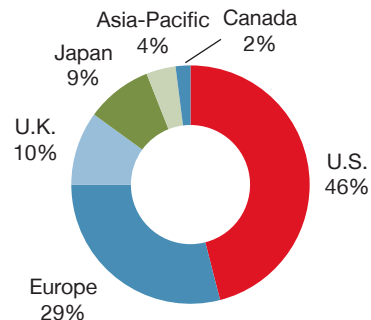
#### Top Stock Holdings

Bayer	4.9%
Zimmer Biomet	4.8%
Heiwa Real Estate	4.7%
Walt Disney Company	3.8%
Medtronic	3.5%
Mowi	3.3%
Vistra Energy	3.1%
Discovery, Inc.	3.0%
Alleghany	2.8%
Konecranes	2.7%

#### Sector Allocation (Stocks)

Industrial Goods & Svc	19.0%
Financial Services	18.4%
Healthcare	17.7%
Consumer Products	10.7%
Oil & Gas	7.0%
Comm. & Media	6.8%
Consumer Cyclical	5.6%
Real Estate	4.8%
Retailing	3.3%
Utilities & Pipelines	3.1%
Technology	1.8%
Basic Materials	1.8%

#### Geographic Profile (Stocks)



### Performance

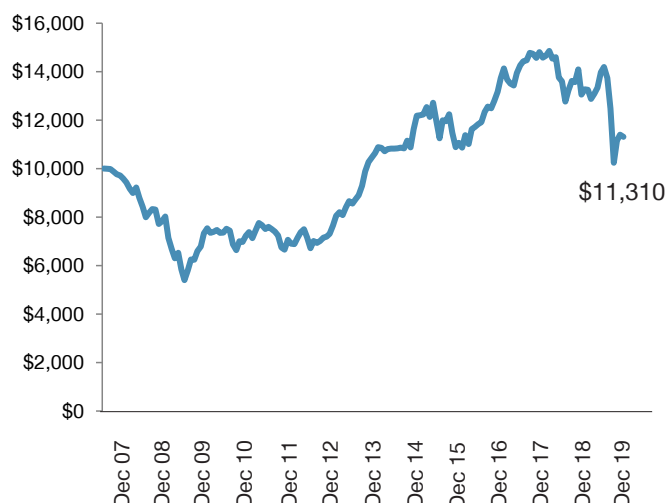
#### Compound Annualized Returns (as of June 30, 2020)

	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep <sup>1</sup>
<b>Global Equity Fund (after-fee)</b>	<b>10.4%</b>	<b>-20.3%</b>	<b>-14.8%</b>	<b>-12.1%</b>	<b>-6.1%</b>	<b>-1.4%</b>	<b>5.5%</b>	<b>0.9%</b>
Morningstar Developed Mkts Index (\$Cdn)*	14.5%	-1.8%	6.2%	5.4%	7.8%	8.5%	12.7%	6.5%

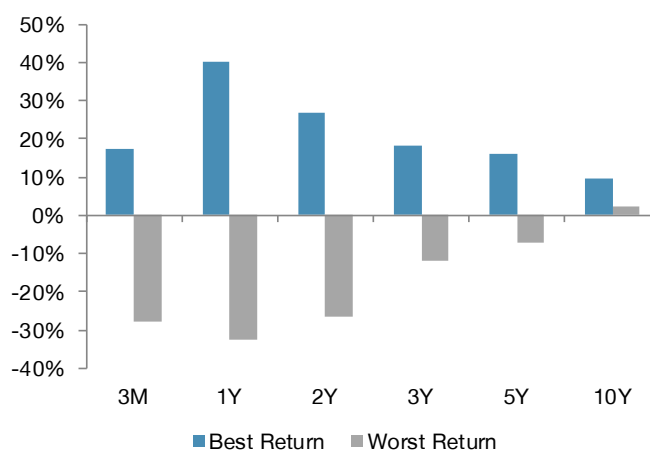
\*The fund has declined 22.5% since September 30, 2018, which is Velanne's starting date as portfolio advisor. The index is up 8.1% over the same period.

<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) gained 38.5% in the quarter. U.S. small-caps (Russell 2000 Index) rose 20.5% in Canadian dollar terms.
- Resource stocks, gold in particular, fueled the market's rebound.

### Portfolio Specifics

- The fund consists of 27 companies, ranging from very small (WATERLOO BREWING) to medium-sized businesses (FINNING). While the majority of holdings are Canadian, there are four U.S. stocks which make up 14% of the portfolio.
- The portfolio had a strong quarter as small-cap stocks rebounded sharply from their March lows. Not surprisingly, some of the fund's hardest hit holdings last quarter were its top performers in Q2, including SPIN MASTER (toy maker), INTERFOR (lumber producer), and FLUOR (engineering & construction), which each gained more than 75%. AG GROWTH INTERNATIONAL (fertilizer & grain handling and storage), SLEEP COUNTRY CANADA (retailer of mattresses and sleep accessories), and CARGOJET (air cargo) also gained more than 50%.
- As the pandemic continues to impact economic activity and force some businesses to pivot, the manager (Galibier Capital) has been thinking hard about a key question as it relates to each holding: *Is this company's competitive advantage sustainable in the new world, and are the right people at the helm?* Galibier's assessment led to some portfolio adjustments in the quarter. ALCANNA (liquor retailer) and CARDINAL ENERGY (oil producer) were sold while PASON SYSTEMS (oilfield data management) was trimmed.
- STANTEC was also sold, but for a different reason. The engineering firm continues to be an excellent business but has gotten expensive and Galibier feels SNC-LAVALIN (also an engineering firm) represents a better opportunity from a value perspective. The fund owned SNC earlier in the year but sold it for a healthy profit. The stock was subsequently repurchased after dropping over 40%.
- Along with SNC, we also repurchased BADGER DAYLIGHTING (hydrovac services), a business we owned for many years before selling for valuation reasons in 2017. The stock has dropped, presenting an opportunity to buy a great business at a good price.
- Two other new stocks were added to the portfolio: BOYD GROUP SERVICES and TOREX GOLD RESOURCES. Boyd is an auto body and glass repair shop that generates strong cash flow and is well managed. Torex is a low-cost gold producer with operations in Mexico. The precious metal offers a hedge against global uncertainty.
- The fund currently has a cash position of 3%.

The fund was up 27.9% in the quarter. Since inception (Feb 2007), it has a cumulative return of 87%, which equates to an annualized return of 4.8%.

### Notable Transactions

#### Buy

Boyd Group Services\*  
Badger Daylighting\*  
SNC-Lavalin\*  
Torex Gold Resources\*

\*New holding

#### Trim/Sell

Alcanna<sup>1</sup>  
Stantec<sup>1</sup>  
Cardinal Energy  
Pason Systems

<sup>1</sup>Position eliminated

### Positioning

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

Fund size	\$39,457,675
No. of stocks	27



## Small-Cap Equity Fund

### Attributes

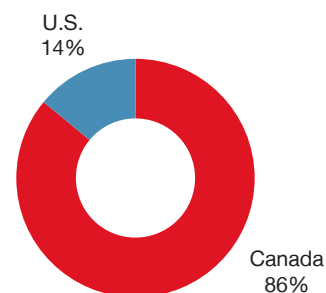
#### Top Stock Holdings

Maple Leaf Foods	6.1%
Northland Power	5.3%
Ag Growth International	4.9%
Torex Gold Resources	4.6%
Spin Master	4.5%
Oshkosh Corp.	4.4%
Parkland Fuel	4.3%
Interfor	4.2%
Premium Brands Hldgs.	4.2%
SNC-Lavalin	4.1%

#### Sector Allocation (Stocks)

Industrial Goods & Svc	46.6%
Consumer Cyclical	14.9%
Consumer Products	14.6%
Basic Materials	9.1%
Oil & Gas	5.6%
Utilities & Pipelines	5.5%
Healthcare	3.7%

#### Geographic Profile (Stocks)



### Performance

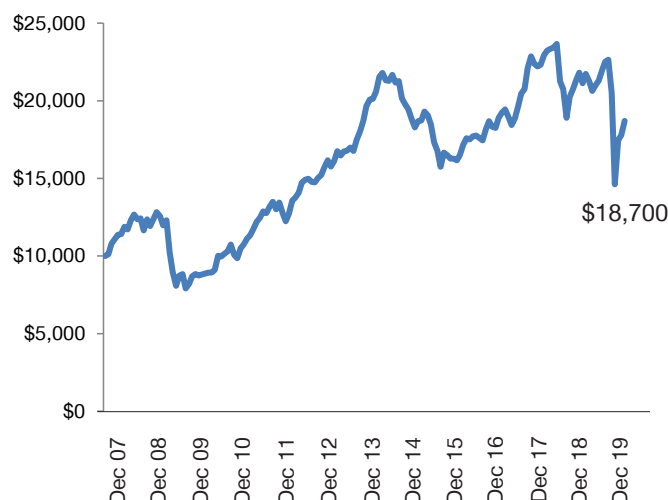
#### Compound Annualized Returns (as of June 30, 2020)

	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep <sup>1</sup>
<b>Small-Cap Equity Fund (after-fee)*</b>	<b>27.9%</b>	<b>-17.0%</b>	<b>-14.0%</b>	<b>-10.3%</b>	<b>-0.4%</b>	<b>0.3%</b>	<b>6.6%</b>	<b>4.8%</b>
S&P/TSX SmallCap Index	38.5%	-14.3%	-10.1%	-9.1%	-4.5%	-0.2%	1.5%	0.2%
Russell 2000 Index (\$Cdn)	20.5%	-8.7%	-2.8%	-3.3%	3.7%	6.1%	13.3%	7.1%

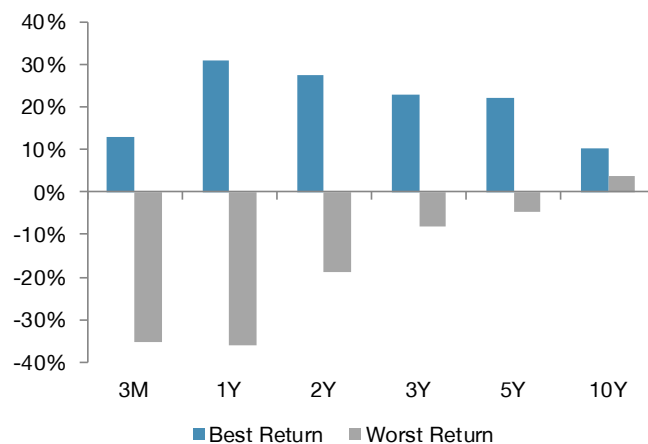
\*The fund has gained 6.2% since September 30, 2016, which is Galibier's starting date as portfolio advisor. The Canadian index is down 13.9% over the same period.

<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) rose 19.2% in the second quarter in Canadian dollar terms.
- Technology, energy and mining companies were strong performers while utilities and real estate lagged.

### Portfolio Specifics

- The fund is managed by New York-based TimesSquare Capital Management, which specializes in small-cap investing. The portfolio is expected to hold between 40-50 stocks around the globe. It's currently invested in 40 companies. Seventeen are in the U.S., 11 in Europe, 6 in Japan, 4 in the U.K., and 2 in Australia.
- Most holdings performed well in the quarter as equity markets around the world rebounded. Notably, KOBE BUSSAN (Japanese discount supermarket), NORDIC ENTERTAINMENT (Swedish broadcaster), and FINECOBANK (Italian investment service provider) were up more than 40%.
- Financial services and technology stocks comprise a large part of the portfolio (24% and 15%, respectively). The manager has found compelling investments in the insurance industry (TOPDANMARK, RENAISSANCERe, STEADFAST). Its highly regulated nature and customers' preference for established players makes it difficult for new entrants. Technology holdings are broad in scope and include GARTNER (consulting), IIT (engineered components for the transportation and energy markets), and J2 GLOBAL (internet information & services).
- Three stocks were sold in the quarter: Japanese clothing retailer ZOZO due to missteps by management; WOODWARD (a manufacturer of airline components) due to a slower growth outlook despite its leadership position; and HORIBA (makes precision instruments for measurement and analysis), as its car testing division is under pressure.
- The manager also trimmed real estate company CUSHMAN & WAKEFIELD and Japanese shoe retailer ABC-MART. Both are high quality companies, but face increased uncertainty in the current economic environment.
- The proceeds from the sales/trims were used to add to stocks that had come under pressure but have solid long-term potential, including NORDIC ENTERTAINMENT, APOLLO GLOBAL MANAGEMENT (private debt and equity management), EN-JAPAN (human resource placement), ZYNGA (mobile games), and WEX (payment processing and fleet management).
- The fund currently has a cash position of 5%.

The fund was up 16.2% in the quarter. Since inception (Feb 2019), it has a cumulative return of 11%, which equates to an annualized return of 8.2%.

### Notable Transactions

#### Buy

Apollo Global Management  
Prosegur Cia de Seguridad  
FinecoBank  
St. James's Place  
En-Japan

#### Trim/Sell

Horiba<sup>1</sup>  
ZOZO<sup>1</sup>  
Woodward<sup>1</sup>  
ABC-Mart  
Cushman & Wakefield

<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.

Fund size	\$7,109,118
No. of stocks	40



## Global Small-Cap Equity Fund

### Attributes

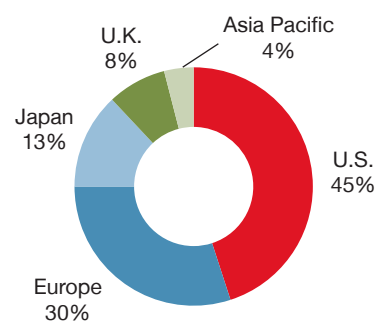
#### Top Stock Holdings

Teleperformance	4.9%
FinecoBank	3.9%
Zynga	3.8%
Kobe Bussan	3.8%
Nordic Entertainment	3.7%
RenaissanceRe	3.7%
Topdanmark	3.5%
St. James's Place	3.5%
Gartner	3.3%
RPM International	3.2%

#### Sector Allocation (Stocks)

Financial Services	24.0%
Industrial Goods & Svc	21.4%
Technology	15.2%
Healthcare	15.0%
Consumer Cyclical	10.9%
Consumer Products	5.4%
Real Estate	4.1%
Oil & Gas	2.5%
Retailing	1.5%

#### Geographic Profile (Stocks)



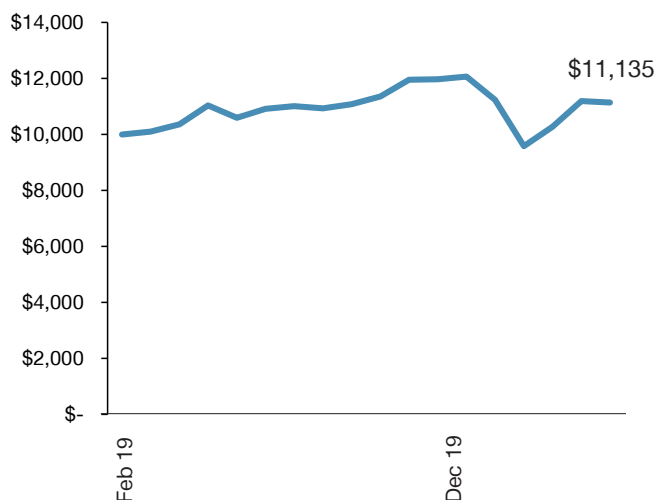
### Performance

#### Compound Annualized Returns (as of June 30, 2020)

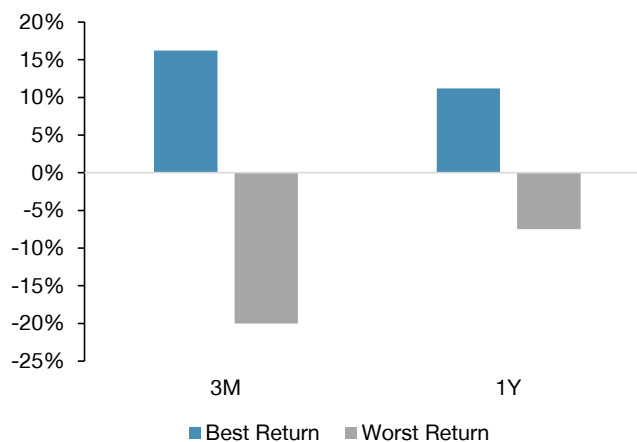
	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep <sup>1</sup>
<b>Global Small-Cap Equity Fund (after-fee)</b>	<b>16.2%</b>	<b>-7.0%</b>	<b>2.1%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>8.2%</b>
S&P Global SmallCap Index (\$Cdn)	19.2%	-14.7%	-6.1%	N/A	N/A	N/A	N/A	-4.3%

<sup>1</sup>Feb 15, 2019

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



#### Best and Worst Annualized Returns



## Savings Fund

### Market Context

- The Bank of Canada left its key lending rate unchanged in the quarter, at 0.25%.
- The impact of COVID-19 on the global economy has been significant. Many countries, however, have implemented massive stimulus and policy responses which have helped cushion the effect of economic shutdowns.
- The Bank of Canada believes the impact of the virus on the economy appears to have peaked, although uncertainty about how the recovery will unfold remains high.
- Short-term policy rates will likely remain at extremely low levels.

### Positioning

- The manager (Connor, Clark & Lunn) maintained its preference for corporate paper in the quarter. These securities, which include bank paper, floating rate notes and short-dated bonds, comprise 70% of the fund.
- Investments in T-Bills remain focused on provincial securities (30% of the fund).
- The pre-fee yield of the fund at the end of June was 0.5%.

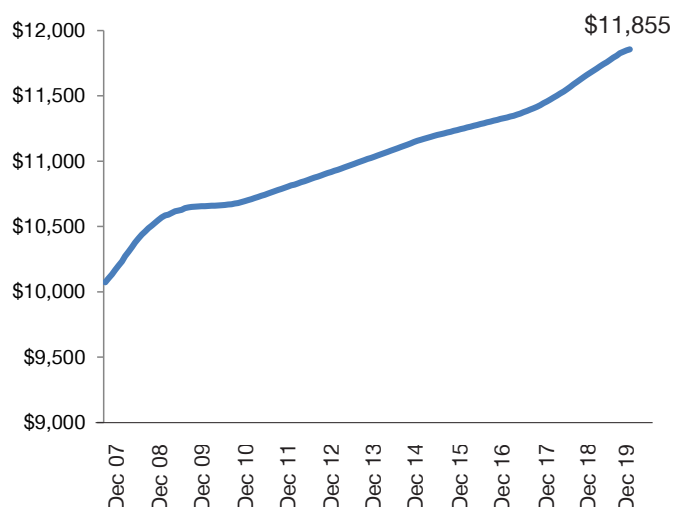
## Performance

### Compound Annualized Returns (as of June 30, 2020)

	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep*
<b>Savings Fund (after-fee)</b>	<b>0.3%</b>	<b>0.7%</b>	<b>1.5%</b>	<b>1.7%</b>	<b>1.5%</b>	<b>1.2%</b>	<b>1.1%</b>	<b>1.3%</b>
FTSE Canada 91 Day T-Bill Index	0.1%	0.8%	1.6%	1.6%	1.4%	1.0%	1.0%	1.3%

\*Feb 13, 2007

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



### Best and Worst Annualized Returns



## Growth stocks are having a moment, but don't write-off value investing

Special to the National Post, by Tom Bradley, May 25, 2020

It's a particularly interesting time to be an equity manager given that the market is being led by a narrow group of stocks, which makes it difficult to beat the indexes, but raises up some interesting factoids.

For example, the big five tech stocks (Amazon, Microsoft, Apple, Alphabet, and Facebook) now account for more than 20% of the S&P 500, and their value is greater than Japan's Topix index. Microsoft alone is almost worth as much as all stocks in the U.K. combined. And in Canada, Shopify, our tech star with \$2 billion in sales, is now more valuable than Royal Bank, which last year made \$13 billion in profit.

These tidbits are starting to remind me of the late 1990s when tech was dominating and Nortel Networks grew to be a third of the Canadian stock market. I was a newly minted chief executive of an asset manager at the time and I'll never forget getting a call from one of our largest, most influential clients. He said, "Tom, the world has changed. Technology is making your firm irrelevant." Irrelevant? Really? We're dinosaurs for holding Toronto-Dominion Bank, Canadian National Railway and Suncor Energy?

Today is similar in that fast-growing companies, including those in technology, are leaving the rest of the market in the dust. This trend has been going on for a decade, but is getting more extreme. In the first quarter, the return gap between the growth half of the U.S. market and the value half was the largest in history, which is remarkable given that value has historically held up better in weak markets. It's no wonder commentators and clients are asking if value is dead.

To be clear, value managers, today's dinosaurs, also want to buy companies that are growing, but they refuse to pay too much for them. Instead, their focus on valuation leads them to companies that are overlooked, going through a down period or have failed to meet analysts' expectations. Some of these companies, despite their warts, are underpriced based on market position and earnings potential.

Historically, investing in the cheapest stocks has been a winning strategy. Value has prevailed over the past century, though growth put together long winning streaks in the 1930s, 1990s and 2010s.

There are many reasons offered to explain the current run — technology change, near-zero interest rates and

emerging monopolies — but it's best understood by dividing the period into two.

For the majority of the time, growth stocks performed well because the companies just flat out did better financially. Their stocks rose in lockstep with expanding sales, earnings and cash flow. The big five tech plays are the poster children for this trend, having gone from being important companies a decade ago to dominant monopolies today.

More recently, however, profit growth in the two categories has been similar and hasn't accounted for the difference in performance. Instead, the streak has been kept alive by rising valuations. In 2019, Microsoft's price-to-earnings ratio rose 26% to 31 from 24, Facebook's grew 42% and Starbucks' increased 38%.

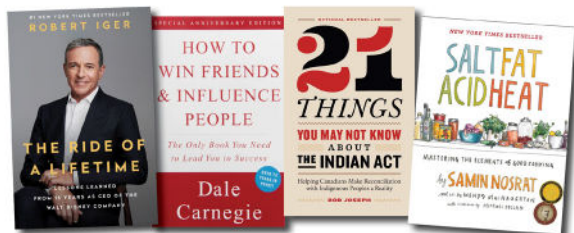
This valuation inflation means that the gap between expensive stocks and their cheaper brethren has never been greater (based on a composite of measures including price to book, price to sales, and price to earnings). AQR Capital Management, a U.S. asset manager, stress tested the cheap vs. expensive calculation several ways, including dropping the big five stocks, and came to the same conclusion.

You can see why it's an interesting time for equity managers. Growth managers are riding high, but see limited returns ahead due to high valuations. And yet, it's hard for them to get off the train because the strategy is working, and clients have little patience for any mistimed moves towards value.

Meanwhile, value managers are living a nightmare. They're under constant pressure from clients and consultants to explain their underperformance and are being pressed to make changes. But they're also excited about the outlook for their portfolios. Valuations on their companies are low and expectations are even lower.

Managers will continue to wrestle with this narrow, divergent market. Investors, on the other hand, may wish to take a balanced approach and own stocks across the growth/value spectrum. This hasn't produced the best results in recent years, but we shouldn't forget how other streaks have ended. There were many individual and institutional investors who agreed with my client during the previous tech boom. They subsequently went through a decade of pain when the "irrelevant" stocks led the way.

# Steadyhand



## Summer Reading

Looking for a good book to sink into this summer? Behold our annual [Summer Reading List](#).

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Published on July 8, 2020, by Steadyhand Investment Funds Inc.

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