

# An Update on the IA Clarington Canadian Small Cap Fund

## Steven Kim

Portfolio Manager  
QV Investors Inc.

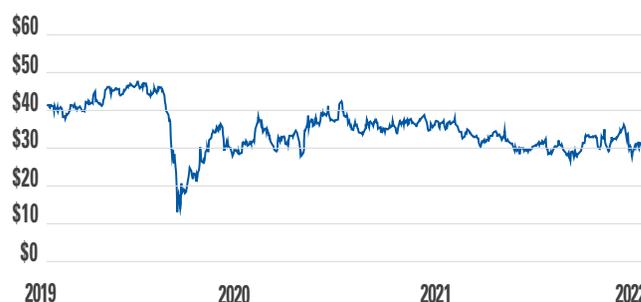
## Funds managed:

IA Clarington Canadian Small Cap Fund  
IA Clarington Canadian Small Cap Class

## What types of energy companies does the fund hold?

- Diversification and business model strength are two key themes we focus on.
- Business model strength is a key driver of performance potential. In late 2020, we had the opportunity to counter-cyclically invest in energy royalty companies, which do not have the capital expenditure and cost commitments that energy producers maintain. As a result, royalty names tend to be more profitable.
- Our energy allocation has a healthy weighting to royalty names. When we added these names, we saw potential for good absolute returns amid low commodity prices. We also saw balance sheets and business models that could weather a range of commodity price outlooks.
- The flip side of these stronger businesses is that they do not have the torque to commodity prices that producers have. But we believe that our patient, risk-adjusted approach will serve us well, and we remain opportunistic from a value perspective.
- Our diversified exposure to the sector includes field distributor Parkland Fuel Corp., which has more of a toll-like business that is less susceptible to the booms and busts producer firms deal with. We think the company can grow independent of the energy cycle, and our expectation is for attractive cash flow and earnings per share growth over the next three to five years.

## Parkland Fuel Corp.



Source: Bloomberg, as at July 25, 2022.

## Have you taken advantage of opportunities in the technology sector?

- The space has been expensive and lacks businesses with a record of earnings and profitability. It also faces above-average risks relative to other industries given the rapid changes that are often seen in the technology space, so we think this additional risk needs to be accounted for.
- Despite these concerns we have long followed Enghouse Systems, a software provider to businesses. The company continually acquires other software businesses, is well run and generates cash to opportunistically reinvest in the business. It was quite expensive until recently, and we took advantage of the more attractive entry point to begin building a position.
- While we may be a bit early, we believe Enghouse's window to acquire other companies should improve as the cost of capital increases for their acquisition candidates.

## Enghouse Systems



Source: Bloomberg, as at July 25, 2022.

### What are some of the challenges faced by the financials sector?

- Rising rates can be helpful for some business models within the sector. However, specific names can trade more cyclically or be tied to market sentiment.
- Market volatility has increased recently, but when we stress test the businesses we own, many show a record of long-term growth despite the ups and downs of the market.
- The challenges that have arisen for a holding like Canadian Western Bank have raised questions around whether the economy will undergo more difficult times. The duration and depth of a potential recession are question marks that are putting pressure on expectations for the company and investor sentiment.
- Despite these concerns, Canadian Western Bank has a good record of managing loan losses in tough economic periods thanks to its secured lending approach. We also think it is more economically diversified than in prior cycles with its recent push into Ontario, which comprises about a quarter of the company's loans geographically.

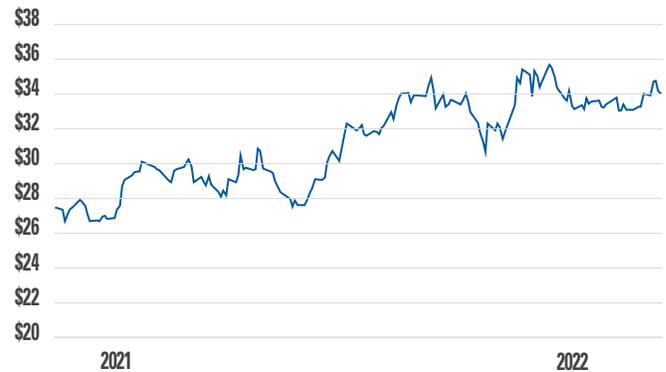
## Canadian Western Bank



Source: Bloomberg, as at July 25, 2022.

- The fund's weighting to financials has trended downward over the past few years as safe and cheap businesses in other sectors have come up.
- Our diversification within financials is evident in our position in Definity Financial Corporation, a property and casualty insurer. The company has shown resilient industry demand given that it is tied to annual non-discretionary consumer spending.

## Definity Financial Corporation



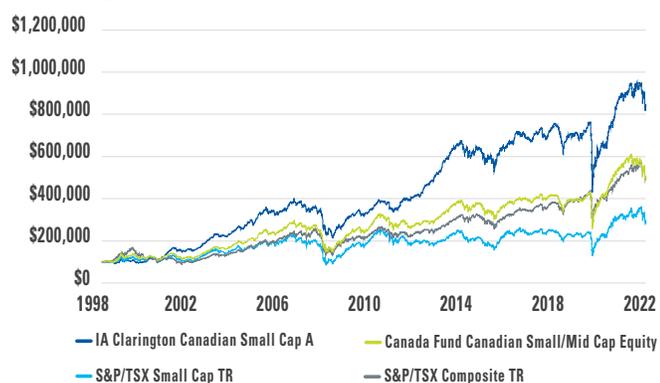
Source: iA Clarington and Morningstar, as at July 30, 2022.

### What is QV's edge relative to peers?

- The key is our disciplined, risk-managed process and our long-term focus, which has defined QV from the very beginning.
- Many think of investment management as a return-generation business, but we tend to think of what we do more broadly and see it as a risk-control business. Day to day, this means managing business quality risk, balance sheet risk and valuation risk – even when the market is not. In our opinion, this differentiates us from our peers – especially in tough market conditions, like what we have seen over the past six months.
- We believe it is very difficult for anyone to consistently get short-term macro calls right. Our long-term-focused investment process enables us to predictably identify attractively valued, well-run businesses with potential for strong performance over a more extended timeframe.
- Most investors tend to have a short-term focus, but we believe that by focusing on a 3- to 5-year (or longer) outlook, we can surface some high-quality, market-independent opportunities.

## Enhanced Wealth-Creation Potential for Long-Term Investors

Visit [iaclarington.com](http://iaclarington.com) to learn more about Steven Kim and the IA Clarington Canadian Small Cap Fund.



Source: Morningstar Direct, as at June 30, 2022. TR = total return.

For definitions of technical terms, visit [iaclarington.com/glossary](http://iaclarington.com/glossary) or speak with your financial advisor.

Fund and benchmark performance as at June 30, 2022	1 year	3 year	5 year	10 years
IA Clarington Canadian Small Cap Fund – Series A	-5.9%	5.8%	4.0%	7.6%
S&P/TSX Small Cap Index	-13.8%	6.9%	3.4%	4.3%

The performance data comparison presented is intended to illustrate the Fund's historical performance as compared with historical performance of widely quoted market indices. There are various important differences that may exist between the Fund and the stated indices that may affect the performance of each. The S&P/TSX Small Cap Index provides an investable index for the Canadian small cap market. The index is float adjusted and market cap weighted and was developed with industry input as the ideal benchmark for those with small cap exposure of the Canadian equity market. The Index includes current index constituents that have both a quoted market value (QMV) and total market value of at least C\$ 75 million, but not more than C\$ 1.75 billion. For the Fund's investment purposes, companies with a market capitalization of less than C\$ 3 billion are considered to be smaller capitalization companies. The Fund's sector and geographic exposure may differ from that of the benchmark. The Fund's currency risk exposure may be different than that of the benchmark. The Fund may hold cash while the benchmark does not. It is not possible to invest directly in market indices. The performance comparison is for illustrative purposes only and does not imply future performance.

Indicated mutual fund rates of return include changes in share or unit value and reinvestment of all dividends or 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. Returns for time periods of more than one year are historical annual compounded total returns while returns for time periods of one year or less are cumulative figures and are not annualized. Where applicable, compound growth charts are used only to illustrate the effects of a compound growth rate and are not intended to reflect future values or returns of a fund. A mutual fund's "yield" refers to income generated by securities held in the fund's portfolio and does not represent the return of or level of income paid out by the fund.

The information provided herein does not constitute financial, tax or legal advice. Always consult with a qualified advisor prior to making any investment decision. Statements by the portfolio manager or sub-advisor responsible for the management of the fund's investment portfolio, as specified in the applicable fund's prospectus ("portfolio manager") represent their professional opinion, do not necessarily reflect the views of iA Clarington, and should not be relied upon for any other purpose. Information presented should not be considered a recommendation to buy or sell a particular security. Specific securities discussed are for illustrative purposes only. Mutual funds may purchase and sell securities at any time and securities held by a fund may increase or decrease in value. Past investment performance of a security may not be repeated. Unless otherwise stated, the source for information provided is the portfolio manager. Statements that pertain to the future represent the portfolio manager's current view regarding future events. Actual future events may differ. iA Clarington does not undertake any obligation to update the information provided herein. The information presented herein may not encompass all risks associated with mutual funds. Please read the prospectus for a more detailed discussion on specific risks of investing in mutual funds.

Commissions, trailing commissions, management fees, brokerage fees and expenses all may be associated with mutual fund investments, including investments in exchange-traded series of mutual funds. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Trademarks displayed herein that are not owned by Industrial Alliance Insurance and Financial Services Inc. are the property of and trademarked by the corresponding company and are used for illustrative purposes only.

The iA Clarington Funds are managed by IA Clarington Investments Inc. iA Clarington and the iA Clarington logo, and iA Wealth and the iA Wealth logo, are trademarks of Industrial Alliance Insurance and Financial Services Inc. and are used under license

[iaclarington.com](http://iaclarington.com)