2nd QUARTER LETTER 2022

July 15, 2022

The 2nd quarter of 2022 was again marked by extreme volatility with both global equity and fixed income markets suffering large declines. The aftereffects of the pandemic including supply-demand imbalances, labor shortages, and supply chain disruptions exacerbated by Russia's attack on Ukraine and lockdowns in China, have caused inflation to remain higher for longer, inciting central banks to raise interest rates more aggressively to suppress demand. This has put tremendous pressure on both equity valuations and bond prices.

The S&P 500 and NASDAQ stock indices plunged -16.1% and -22.3% respectively during the quarter, finishing down -20% and -29.2% year-to-date and marking the worse first-half for US stocks since 1970. Europe, the Far East, and Emerging Markets were down -11.4%, -10.4% and -8.4% respectively during the quarter, and are down -18.7%, -16.5%, and -15.7% year-to-date in Canadian dollar terms. Bonds performed almost as poorly, with the Canadian Universe Bond Index down -5.7% during the quarter and -12.2% year-to date, while the U.S. bond benchmark was down -4.7% during the quarter and -10.4% year-to-date. With bond markets on track for their worse performance in history, there has been no place to hide…

CANADIAN EQUITY

During the 2nd quarter, the **LAM Canadian Equity Fund** was down **-12%** before fees versus a decline -13.2% for the TSX Composite Total Return. Our outperformance was mainly due to our low exposure to cyclical sectors such as Materials and Financials which were down -24% and -13.9% respectively, as well as avoiding interest rates sensitive sectors such as REITs which were down -18.4%. We achieved this despite our low exposure to the Canadian Energy sector which was up +2.7% during the quarter. Year-to date, we are down **-12.5%** versus -9.9% for the TSX, largely as a result of our low weighting in the Energy sector which was up +26.2%. Our low exposure to oil & gas and commodities such as gold, mining & metals, and other "cyclical" sectors while the global economy is expected to slow down, served us particularly well in June and so far in July.

Our top contributors during the quarter included renewable power producer **Boralex**, which won large solar projects in the State of New York, North American packaging company **Winpak**, and discount retailer **Dollarama**. Positive returns were also generated by several of our new holdings such as P&C insurance company **Definity Financial**, and Canada's leading vitamin & supplement manufacturer **Jamieson Wellness.** Our biggest detractors included companies generating record results such as agricultural equipment manufacturer **Ag Growth**, fast growing air freight carrier **Cargojet**, home accessibility and patient handling equipment maker **Savaria**, and Canada's leading institutional pharmacy **CareRx**, as well as banks such as **TD** and **BMO.**

To quantify the magnitude and breadth of this year's stock market decline, **Shopify**, briefly Canada's most valuable company, has seen its share price plunge by nearly 80%. As well, nearly three-quarters of the companies on the TSX have see their shares drop by 20% or more. Given the volatility and economic uncertainty going forward, our strategy remains to be highly diversified in non-cyclical and non-economically sensitive sectors that are recession resistant and have pricing power, yet still benefit from powerful long term trends such as aging demographics, the digitization of businesses, infrastructure spending, and the transition to clean energy. We have also been taking advantage of market weakness to add some high quality companies at attractive prices which should help generate strong long term returns. We see Canada as one of the safest and most attractive markets to invest in given its low unemployment, high personal savings, wealth of natural resources, strong currency, and key role in helping Europe end its dependence on Russia.

U.S. EQUITY

During the 2nd quarter, our U.S. portfolio declined **-11.8%** versus -16.1% for the S&P 500 Total Return. Year-to-date, we are down **-16.1%** versus -20% for the S&P 500. Our strong outperformance during the quarter was due to being overweight in defensive sectors such as healthcare and consumer staples which were down much less than the market. Positive contributions in our portfolio were generated by the likes of **Eli Lilly**, **United Heath Group**, and **Colgate Palmolive**. Shares of **T-Mobile** also rose again during the quarter due to its defensive nature as a wireless carrier and strongest 5G player in the U.S. Our biggest detractors unsurprisingly were consumer discretionary stocks such as **Amazon**, **Booking Holdings**, and **Ross Stores** (since sold), financials like **JP Morgan Chase** and **Fifth Third Bancorp**, and technology companies like **Microsoft**, **Alphabet**, **Cisco**, and **Paypal**.

During the previous quarter, we had initiated a position in **FedEx** which has since become subject to an activist shareholder who sees the same deep value as we do. The company has a valuable end-to-end transportation and logistics network controlling "the last mile" (i.e. delivery to the end consumer), yet has not been managed optimally. There is great potential for much improved results from realizing better operational efficiencies and re-alignment of interests between management and shareholders. As a result, executive compensation changes have been made, new board members have been appointed, and the dividend has been increased by over 50%. We also repurchased shares of **Activision** which are trading at a 20% discount to the take-over price being offered by **Microsoft**. While Microsoft would become the 3rd largest video game company in the world, we do not believe that this transaction poses antitrust issues, since video gaming is very much a hit-driven content business like the movie industry, and thus the risk of not obtaining the needed regulatory approvals is low.

As we are still in an environment where the Federal Reserve is hiking interest rates, we expect continued volatility in the market and are thus maintaining a high level of cash for attractive opportunities as they arise.

FIXED INCOME

The 2nd quarter was also tough on fixed income assets. The **LAM Canadian Fixed Income Fund** ended the quarter with a gross negative return of **-5.1%** versus -5.7% for the FTSE Canada Universe Bond Index and -5.1% for the Hybrid Bond Index. For 2022, the Fund remains well ahead of benchmark with a return of **-8.1%** versus -12.2% for the FTSE Canada Bond Index and -10.6% for the Hybrid Bond Index. Persistent high inflation data, combined with a strong labor market, leaves central banks with little choice but to adopt very restrictive monetary policy rhetoric and measures. In this context, interest rates have continued to rise and credit spreads have widened, which largely explains the negative performance of global bond markets.

Not surprisingly, all securities in our fixed income portfolio were negatively impacted, but those that depreciated the least were the higher quality instruments such as government bonds and those with shorter maturities like **Ford Credit Canada 3.742%**. Detractors comprised longer duration corporate bonds such as **Telus 4.85%** and those issued by **Videotron**, a subsidiary of Quebecor which is considered the likely buyer of Freedom Mobile's wireless assets in Rogers' acquisition of Shaw Communications and whose leverage would increase.

Going forward, it will be important to watch economic data which will once again dictate how aggressively central banks will tighten monetary policy. It will also be interesting to monitor estimates of a likely economic slowdown and what sectors will be most impacted (housing, consumer discretionary…). On the other hand, the favorable employment environment and high commodity prices are beneficial to the Canadian economy, and may provide for a softer landing domestically. Credit spreads will be interesting to watch, and as mentioned in the past, were expensive considering the aggressive rate hikes to slow consumer demand. With the recent rapid rise in rates combined with widening spreads, corporate bonds are much more attractive now, especially on a current yield basis. In fact, the **LAM Canadian Fixed Income Fund** currently offers a very attractive average yield to maturity of 5.8% with a duration of only 4 years. We also continue to invest our maturating bonds and cash inflows into rate reset preferred shares with floors which offer good protection against rising or falling rates, while providing attractive yields and potential upside if redeemed by the issuer.

MACROECONOMIC OUTLOOK

Our view has been that inflationary pressures would show clear signs of easing before year-end as a result of monetary restraint imposed by both the Bank of Canada and the Federal Reserve. Fiscal deficits in Canada and the U.S. have been shrinking dramatically, and as a result the major causes of high current inflation, excessive monetary stimulus and massive fiscal deficits, have been removed. Published inflation numbers in both countries, because of time lags, are still extremely high, and policy will remain focused on getting price inflation on a sustainable trend back to a target level of 2%. Both central banks are focused on labor markets which are still very tight. Historically, inflation falls only when slack develops in the labor market. Unfortunately, unemployment and published inflation data are lagging indicators, which raises the risk of a weaker economy. But this is a necessary condition to get inflation down. There will, therefore, likely be a short-term decline in corporate profits and possible job losses. However, the impact on stock prices would likely be muted because the prospect of falling inflation is a bullish offset, and equities have already had a significant correction.

The important focus for investors should be on the future, not on today's news. Markets are forward looking by roughly six months and in recent weeks there have been some positive developments. Market-based measures of inflation expectations for two to five years out have begun to fall sharply. The five-year indicator, for example, has recently dropped from about 2.6% to about 1.8%, which is below the Fed's target. The two-year measure has dropped from 5% to about 3.3%. This is a significant development since it suggests that we are moving fairly quickly to the point where we can expect published inflation (and yields) to start falling back to more normal levels. Already, the 10-year Government bond yield in both countries appears to have made a cyclical top and is now on a downward slope. Developing economic weakness will, if extended, reinforce this downtrend which would also be good news for bond investors.

In summary, economic developments are pointing to the likelihood of a continued decline in longer-term interest rates as inflation expectations have dropped significantly. This bodes well for an end to monetary restraint and a peak in short-term interest rates before year-end which would tip the scales in favor of a "soft landing" and improving stock prices. Even though commodity prices, including energy, have fallen sharply from recent peaks, they are still far above the average of recent years. High commodity prices are a net positive for the Canadian economy. In addition, the Canadian dollar is cheap, which is playing a major role in the massive increase in Canada's trade surplus with the US.

NEW APPOINTMENTS

We are pleased to announce the appointment of two new members to our portfolio management team. Matthew Kaszel recently joined us as Portfolio Manager co-managing Canadian and U.S. equities, having worked for 9 years at an established investment management firm as Portfolio Manager and Research Analyst covering North American and Global equities. He is a graduate of the John Molson School of Business and holds a Chartered Financial Analyst (CFA) designation. Samuel Desrochers, a recent graduate of the University of Sherbrooke with a Master of science (Finance) and Level 3 CFA candidate, has also joined us as Research Analyst.

Stephen Takacsy **Olivier Tardif-Loiselle** **Matthew Kaszel** **Tony Boeckh**

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