

# Fidelity True North Fund

## Quarterly Investment Review

June 30, 2023

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## Overview

**INCEPTION DATE:** January 02, 2001  
**BENCHMARK:** S&P/TSX Capped Composite Index  
**FUND MANAGER:** Maxime Lemieux

### OBJECTIVE

The Fund aims to achieve long term capital growth by investing primarily in Canadian equity securities.

### APPROACH

- An excellent Canadian equity core holding.
- Seeks to invest in companies that are expected to grow over the long term and that are trading at reasonable valuations.
- Investments focused primarily in Canada.

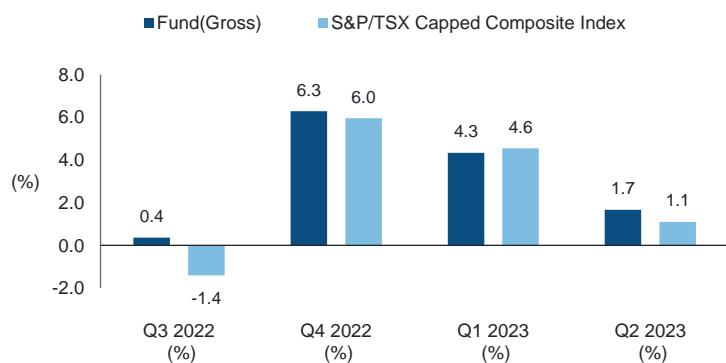
### PERFORMANCE RETURNS (%)

	Cumulative					Annualized				
	Q3 2022	Q4 2022	Q1 2023	Q2 2023	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Fidelity True North Fund - Series O	0.36	6.28	4.34	1.66	6.08	13.15	13.84	10.30	10.51	9.32
S&P/TSX Capped Composite Index	(1.41)	5.96	4.55	1.10	5.70	10.43	12.42	7.62	8.43	6.87
Relative Return	1.77	0.32	(0.21)	0.56	0.38	2.72	1.42	2.68	2.08	2.45

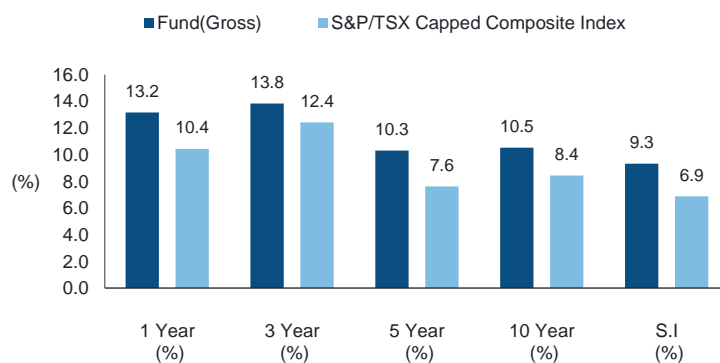
Performance returns are unaudited and time-weighted.

Note: Differences may be due to rounding.

### Cumulative Quarterly Performance



### Annualized as of June 30, 2023



## Overview

### PERFORMANCE RETURNS (%): CALENDAR YEAR RETURNS

	Calendar Year Returns									
	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Fidelity True North Fund - Series O	(3.25)	25.99	12.52	19.89	(2.87)	7.26	12.49	0.37	16.10	25.24
S&P/TSX Capped Composite Index	(5.84)	25.09	5.60	22.88	(8.89)	9.10	21.08	(8.32)	10.55	12.99
Relative Return	2.59	0.90	6.92	(2.99)	6.02	(1.84)	(8.59)	8.69	5.55	12.25

Performance returns are unaudited and time-weighted.

Note: Differences may be due to rounding.

## Quarterly Fund Commentary

- The Fund's investments in the industrials sector contributed to relative performance.
- In industrials, out-of-benchmark exposure to LeddarTech and an investment in Boyd Group Services contributed. In other sectors, investments in Dollarama and TMX Group contributed.
- The Fund's investments in the information technology sector and overweight exposure to consumer staples detracted from relative performance.
- In information technology, underweight exposure to Shopify detracted the most. In consumer staples, an investment in Weston George detracted. In other sectors, an investment in Rogers Communications detracted.

## 12 Month Fund Commentary

- The Fund's investments in, and overweight exposure to, the industrials sector contributed to relative performance. Investments in, and underweight exposure to, financials also contributed.
- In industrials, overweight exposure to Boyd Group Services and SNC-Lavalin Group contributed. In financials, lack of exposure to two Canadian banks contributed.
- In other sectors, investments in CGI and Alimentation Couche-Tard contributed.
- The Fund's investments in information technology and materials detracted from relative performance.
- In information technology, underweight exposure to Shopify detracted the most. In materials, investments in a Canadian mining company and Nutrien detracted.
- In other sectors, underweight exposure to a Canadian fast-food restaurant chain and a Canadian diversified natural resources company detracted.

## Positioning and Outlook

- Portfolio manager Maxime Lemieux believes that GDP growth has been more resilient than market participants anticipated. Max notes that residual household savings that accumulated during the COVID-19 pandemic may have helped bolster current earnings, making some more cyclical sectors resilient given the current environment.
- The manager believes we may still see a market slowdown, but notes that a recession may be deferred.
- Max acknowledges that the trend for inflation is downward, although it is likely to remain above central bank targets. He notes that wage inflation driven by labour scarcity may be driving persistence in overall inflation.
- Max notes that U.S. regional bank credit conditions have not suffered as much as anticipated following the regional banking crisis. He still expects conditions to tighten in the future, however, less rapidly than expected.
- Globally, companies are struggling to motivate employees to return to the office. In fact, vacancies in office towers in Canada are still the highest they have been in decades, at 15–18%. This portion of commercial real estate will be vulnerable when leases are up for renewal. Max therefore maintains underweight positions in the Fund in both the financials and real estate sectors.
- Max is aware that markets have priced in rate cuts near the end of the year, which benefitted the market in the first half of the year. For these reasons, the manager has positioned the Fund defensively and has a bias for quality stocks – that is, companies with good balance sheets, good business models, good returns and trustworthy management teams. He continues to identify risk from an absolute perspective and to invest for the long term.

## Performance Attribution

### SECTOR ATTRIBUTION SUMMARY - 3 MONTHS

Sector	Average Fund Weight (%)	Average Benchmark Weight (%)	Relative Weight (%)	Fund Return (%)	Benchmark Return (%)	Relative Return (%)	Security Selection (bps)	Sector Selection (bps)	Total Relative Contribution (bps)
INDUSTRIALS	17.02	13.78	3.23	5.92	2.10	3.82	64	4	68
ENERGY	7.75	16.91	(9.17)	0.88	0.04	0.84	8	9	17
FINANCIALS	21.06	30.09	(9.03)	3.08	2.00	1.08	23	(9)	14
HEALTH CARE	2.56	0.34	2.22	6.33	0.46	5.87	11	1	12
MATERIALS	9.04	12.37	(3.33)	(8.48)	(6.92)	(1.57)	(17)	29	11
CONSUMER DISCRETIONARY	3.65	3.70	(0.04)	8.34	6.35	1.99	7	0	7
REAL ESTATE	1.23	2.41	(1.18)	(6.05)	(2.85)	(3.20)	(5)	4	0
COMMUNICATION SERVICES	5.59	4.31	1.28	(1.02)	(1.09)	0.07	0	(2)	(2)
UTILITIES	2.71	4.57	(1.86)	(4.36)	(1.46)	(2.90)	(8)	5	(3)
MULTI SECTOR	0.43	0.00	0.43	(4.58)	0.00	(4.58)	(4)	0	(4)
CONSUMER STAPLES	7.46	4.25	3.20	(3.61)	(2.64)	(0.97)	(7)	(12)	(20)
INFORMATION TECHNOLOGY	8.75	7.27	1.48	7.63	16.60	(8.97)	(68)	21	(48)
<b>SUBTOTAL</b>	<b>87.24</b>	<b>100.00</b>	<b>(12.76)</b>	<b>1.71</b>	<b>1.10</b>	<b>0.61</b>	<b>3</b>	<b>50</b>	<b>54</b>
CASH AND OTHER	12.76	-	-	-	-	-	-	-	2
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>	<b>0.00</b>	<b>1.66</b>	<b>1.10</b>	<b>0.56</b>	<b>-</b>	<b>-</b>	<b>56</b>

Note: Differences may be due to rounding.

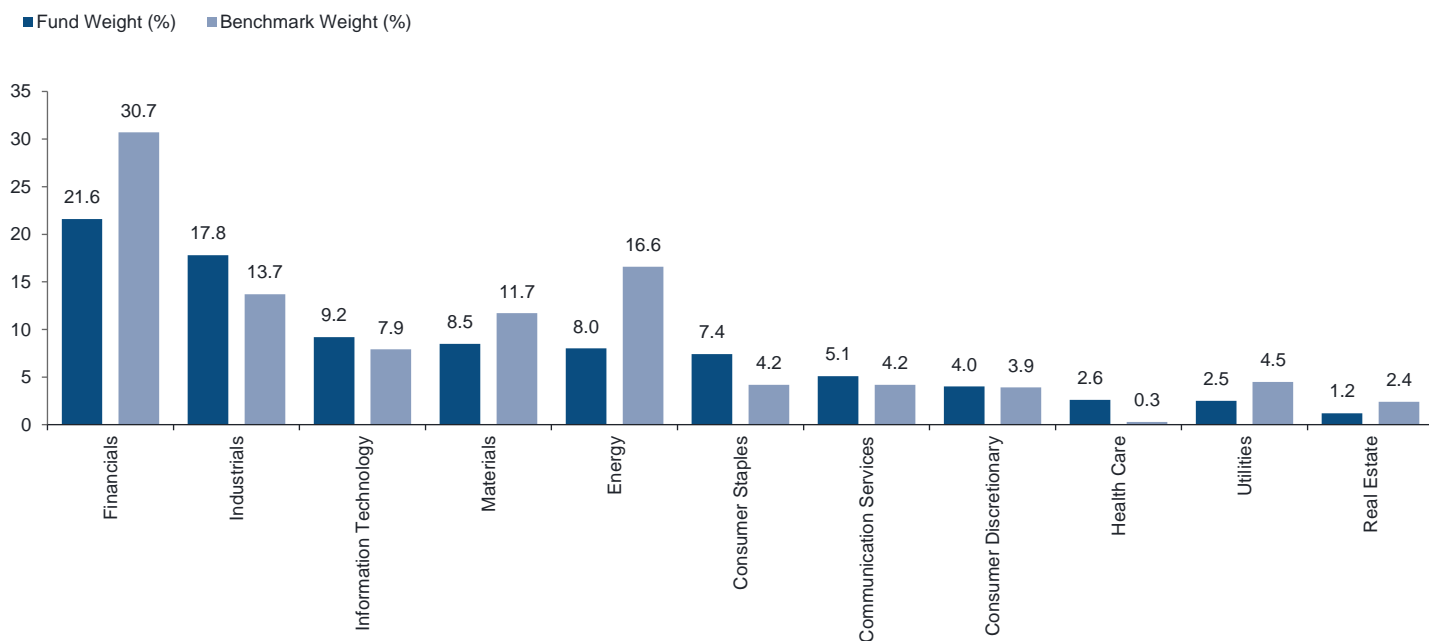
### SECTOR ATTRIBUTION SUMMARY - 1 YEAR

Sector	Average Fund Weight (%)	Average Benchmark Weight (%)	Relative Weight (%)	Fund Return (%)	Benchmark Return (%)	Relative Return (%)	Security Selection (bps)	Sector Selection (bps)	Total Relative Contribution (bps)
INDUSTRIALS	16.55	13.32	3.22	31.59	21.48	10.11	150	39	189
FINANCIALS	23.32	30.94	(7.63)	8.46	5.95	2.51	61	39	101
ENERGY	9.24	17.69	(8.45)	(0.76)	0.84	(1.60)	(17)	72	56
UTILITIES	2.59	4.68	(2.09)	(6.84)	(7.12)	0.28	(1)	51	50
COMMUNICATION SERVICES	5.18	4.76	0.42	4.94	0.16	4.79	33	5	38
CONSUMER STAPLES	7.00	4.19	2.80	19.69	16.94	2.75	18	14	32
CONSUMER DISCRETIONARY	4.61	3.60	1.01	22.85	26.15	(3.30)	(19)	21	1
HEALTH CARE	2.44	0.38	2.06	5.25	(15.52)	20.78	40	(40)	0
MULTI SECTOR	0.11	0.00	0.11	(5.35)	0.00	(5.35)	(4)	0	(4)
REAL ESTATE	1.55	2.55	(1.00)	(6.37)	2.99	(9.36)	(15)	5	(10)
MATERIALS	9.67	11.86	(2.20)	8.98	11.59	(2.60)	(29)	10	(19)
INFORMATION TECHNOLOGY	8.51	6.01	2.49	31.20	59.27	(28.06)	(192)	92	(100)
<b>SUBTOTAL</b>	<b>90.75</b>	<b>100.00</b>	<b>(9.25)</b>	<b>14.07</b>	<b>10.43</b>	<b>3.64</b>	<b>25</b>	<b>308</b>	<b>333</b>
CASH AND OTHER	9.25	-	-	-	-	-	-	-	(61)
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>	<b>0.00</b>	<b>13.15</b>	<b>10.43</b>	<b>2.72</b>	<b>-</b>	<b>-</b>	<b>272</b>

Note: Differences may be due to rounding.

## Fund Positioning

### SECTOR ALLOCATION



Sector breakdowns are only applied to equities and convertibles and the allocation percentages may not add to 100%.

Fund and benchmark weights are based on end weights as at each quarter end.

### TOP 10 HOLDINGS

Holding	Sector
ROYAL BANK OF CANADA	FINANCIALS
TORONTO-DOMINION BANK	FINANCIALS
CANADIAN PACIFIC KANSAS CITY L	INDUSTRIALS
ROGERS COMM INC CL B NON VTG	COMMUNICATION SERVICES
CANADIAN NATL RAILWAY CO	INDUSTRIALS
ALIMENTATION COUCHE-TARD INC	CONSUMER STAPLES
CANADIAN NATL RESOURCES LTD	ENERGY
DOLLARAMA INC	CONSUMER DISCRETIONARY
CGI INC CL A SUB VTG	INFORMATION TECHNOLOGY
INTACT FINL CORP	FINANCIALS

## Investment Process

### Sources of information and investment ideas

- Notes from Team Canada analysts, meetings with company management, conferences and third party research and publications

### Investment style and portfolio construction

- Bottom-up, fundamental company analysis is the primary driver of portfolio construction
- Stock selection is driven by a growth at a reasonable price (GARP) approach, with an absolute return bias and strong focus on mitigating downside risk during periods of market weakness
- Looks for companies that are expanding margins and driving earnings-per-share growth, through prudent cost management and growing top line revenue
- Valuation analysis includes absolute versus relative to peers and industry, Price/Earnings, FCF yield, EV/Sales, PEG emphasis for faster growing industries such as technology or biotech, EV/EBITDA
- Highly values management quality and experience
- Looks for stocks that will outperform the market and peers over the next 12-18 months
- May invest in restructuring stories if valuations are sufficiently attractive and the outcome of restructuring has the potential to unlock significant value
- Insensitive to benchmark composition
- Sector weights result from bottom up stock selection, while industry selection is informed by both bottom-up and top down considerations
- Position size a function of conviction, may concentrate up to 5-7% of the portfolio in a single stock
- May hold core long-term positions in the portfolio and may trade around these opportunistically
- Buys/sells purely a function of relative valuation and company fundamentals
- May invest in non-Canadian stocks up to 30% but allocations to foreign stocks will typically average 10% or lower
- Will typically hold 3-5% in cash, however, in certain market conditions, may hold cash balances between 0-20%

### Risk control

- Constantly searching for stocks offering the best risk/ reward profile (upside/downside potential)
- Thoroughness of analysis is the key risk control measure
- Manager runs diversified portfolio, typically less than 100 names, but willing to have significant under/overweights at stock or sector level
- Shifts portfolio beta based on market environment and whether market will pay for taking on a higher level of stock or portfolio risk