

## NORTH AMERICAN EQUITY

# QUARTERLY COMMENTARY

March 31, 2022



### Canada

With the Russian invasion of Ukraine on February 24, 2022, western governments unleashed the most far-reaching and punishing set of financial and economic sanctions on Russia, creating near-term risks for markets. The U.S. had been the driving force behind the push on sanctions. In Europe, the war will unwind decades of Russian energy dependence and will accelerate its sustainable energy transition. With the importance on Russia and Ukraine in commodity markets, prices are surging via supply disruptions.

The combination of rising rates, the war in Ukraine and another wave of COVID-19 negatively impacted stock markets. On the positive side, commodities continue to be massive outperformers. With a China stimulus on the horizon and rock bottom inventories, the trend for commodities is well supported in 2022. Also, the hopes for decarbonization have now turned into a race towards securing a geo-strategic energy supply. The clear winners are EVs, solar and wind, all of which help reduce exposure to hydrocarbons and are copper-intensive.

For crude oil, global supply was already struggling to keep up with demand before the invasion of Ukraine. With the reluctance of some shippers to load Russian crude, the barrel is now trading around \$100 per barrel. IEA countries will release strategic inventories over the next months, but it does little more than slap a band-aid on a much deeper problem. OPEC countries are facing issues of their own with difficulties to increase their production. 2022 could be equally as good as 2021 for the sector as a multi-year bull market for energy takes hold with tightening environmental expectations and shifting shareholder demands.

We recently added a new oil producer to the portfolio: Rubellite. The company is focused on growing production in its pure-play Clearwater asset in Eastern Alberta. Rubellite is pursuing an organic growth approach while prioritizing and free funds flow generation.

The portfolio is well-exposed to energy producers and mining companies. We had some success with our overweight energy exposure since the beginning of 2021. We are still overweight, but less than previously. We will look to increase our technology exposure at some point, but not before we see what will happen in the next three to six months. With higher inflation and rates, an emphasis on active stock picking should as usual be a key differentiator to produce alpha with active management over the next months.

## U.S.

We construct the U.S. portion of the portfolio with a barbell strategy. On one side, we like to have exposure to innovators and keep between 5% to 15% in small- to mid-capitalisation companies. Each position here needs to make sense from a risk-and-return point of view. It's currently "hunting season" on that side of the portfolio, as we see many opportunities with a positive free cash flow generation profile and strong potential inflection coming within the next few years. We will continue to add methodically and gradually to new and existing positions while moving away from some of the big tech companies that had a significant weighting in the portfolio since inception. It might have been a bit premature to do so in the first quarter of the year as the market has been grappling with tougher monetary policies, an unexpected war and rising inflation but we think we are transitioning towards slowing economic growth and topish inflation data read going forward which should eventually favored that side of the portfolio.

On the other end, we go with dominant firms where we currently see more opportunities in some defensive sectors, like healthcare, and in companies that have historically showcased a higher level of pricing power. The healthcare sector, which has underperformed significantly since mid-2020, is relatively well-positioned from here, in an environment of declining economic growth and reduced political pressures with its historical discount to the rest of the market. We think this strategy design will enable us to add alpha during this next phase of the cycle.

The war in Ukraine is having a major impact on global trade flows but the fact that the Russian army has retreated in some regions removes a worst-case scenario of a conflict that could have spillover in the region. We have made

some adjustments by adding positions in companies that will either benefit from a sustainable rise in agricultural products prices or from the rising complexities brought by disrupted trade flows. Monetary policy authorities seem determined to bring inflation back down at the expense of economic growth. To accomplish what is usually referred to as a soft landing, meaning avoiding recession while raising interest rates, has been extremely difficult to realize historically and is certainly a recipe for higher volatility for the rest of the year. It's usually a time in the cycle where the average investment horizon gets shorter, which means that long-term opportunities abound. The worst mistake would be to sell those long-term winners and let fear drive our decisions.

Our focus is on risk management and stock selection. We refrain from selecting stocks based solely on their thematic exposure; it must make sense from a valuation standpoint. We use a discounted cash flow model to help our selection and we see many opportunities in secular growth stories with positive free cash flow yield that we see as currently dislocated following big selloffs. Position sizing is very important for us and we apply strict guidelines to keep a strong discipline and not let emotions get in the way. In terms of selection, we think that investing is about the future and will continue work on our unique thematic style while incorporating our differentiated view of the future.



#### MARC GAGNON, M. Sc., CFA

- Principal Portfolio Manager, North American Equities
- Joined iAIM in 1998
- More than 25 years of investment experience
- MBA in Finance, Université Laval
- Bachelor's degree in Business Administration, Université Laval



#### JEAN-PIERRE CHEVALIER, CFA

- Senior Portfolio Manager, U.S. Equities
- Joined iAIM in 2011
- 15 years of experience in the industry
- Bachelor's degree in Business Administration, Université Laval

#### Main funds managed by the team

✓	Canadian Equity Growth
✓	Real Estate Income
✓	Global True Conviction
✓	Canadian Equity Growth Hybrid 75/25
✓	Global True Conviction Hybrid 75/25
✓	IA Clarington Canadian Leaders Class

#### iAIM snapshot

- Principal asset manager for iA Financial Group
- Major player in the asset management industry
- Manages \$97 billion in general portfolios and segregated and mutual funds
- A team of 184 people, including 108 investment professionals (including 44 CFA charterholders)
- Composed of experienced managers who emphasize fundamental analysis, identification of value and long-term investing

## DISCLAIMER

This document was prepared by iA Investment Management. Unless otherwise indicated, the segregated funds presented in this document are offered by iA Financial Group and the Mutual Funds presented are offered by iA Clarington Investments Inc.

The opinions expressed herein are based on current market conditions and may change without notice. They are not intended to provide investment advice. The forecasts provided herein are not guarantees of future performance, and include risks, uncertainty and assumptions. While these assumptions appear reasonable, there is no guarantee that they will be confirmed.

An investment in the mutual fund or the segregated fund may result in commissions, trailing commissions, management and other fees. Please read the prospectus or the Information Folder before making an investment. Each rate of return indicated is a historical annual compounded total rate of return that takes into account fluctuations in the value of units or shares and the reinvestment of all distributions and does not take into account buying commissions or redemption fees, investment fees, optional fees or tax on payable income by a unit holder, which would contribute to poor performance. Mutual Funds are not guaranteed and the segregated funds are guaranteed in part, under certain conditions. The value often fluctuates upward or downward, at the risk of the subscriber, and past performance is not indicative of future performance.

The rate of return is used to illustrate the effects of the compound growth rate only and is not intended to reflect the future values of the investment fund or the return on an investment in the investment funds.

iA Financial Group is a business name and trademark of Industrial Alliance Insurance and Financial Services Inc. iA Investment Management is a trademark and business name under which Industrial Alliance Investment Management Inc. operates. iA Investment Management and iA Clarington Investments Inc. are wholly owned subsidiaries of iA Financial Group.

This publication contains information provided by companies not affiliated with iA Financial Group ("Third Party Content Providers"), including, but not limited to, ratings, stock indexes and company-classification systems ("Third Party Content") Third party Content is the property and trademarked by the relevant Third Party Content Providers and has been licensed for use by iA Financial Group. The use of Data received from Third Party Content Providers by iA Financial Group is authorized under licence.

This publication contains information provided by companies not affiliated with iA Financial Group ("Third Party Content Providers"), including, but not limited to, ratings, stock indexes and company-classification systems ("Third Party Content") Third party Content is the property and trademarked by the relevant Third Party Content Providers and has been licensed for use by iA Financial Group. The use of Data received from Third Party Content Providers by iA Financial Group is authorized under licence.

The information presented in this publication is provided for informational purposes only. iA Financial Group and Third Party Content Providers make no representations or warranties as to the information contained herein and do not guarantee its originality, accuracy or completeness. iA Financial Group and Third Party Content Providers disclaim all liability in respect of this information or the use or misuse thereof.

The investment funds offered by iA Financial Group ("Funds") are not sponsored, endorsed, sold or promoted by Third Party Content Providers. Third Party Content Providers make no representation as to the relevance of investing in the Funds, offer no guarantee or conditions in respect thereof, or assume liability in respect of their design, administration or negotiation.

Financial and economic publications of iA Financial Group are not written, reviewed or approved by Third Party Content Providers.

Any information contained herein may not be copied, used or distributed without the written consent of iA Financial Group and/or the relevant Third Party Content Provider.

Where FTSE indexes are used, or referenced: FTSE International Limited ("FTSE") © FTSE [2018] ® is a trademark of the London Stock Exchange Group companies and is used by FTSE under licence. "NAREIT®" is a trademark of the National Association of Real Estate Investment Trusts and used by FTSE under licence. "EPRAs" is a trademark of the European Public Estate Association and used by FTSE under licence. "TMX" is a trademark of the TSX Inc. used by FTSE under licence.

NASDAQ®, OMX™, NASDAQ-100® and NASDAQ-100 Index® are registered trademarks of NASDAQ Inc. and are licensed for use by iA Financial Group.

Where the Global Industry Classification Standard (GICS) is used or referenced: the GICS was developed by MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by iA Financial Group.

The International Equity Index Fund, the Global Equity Index ACWI Fund, the Global Stock Account, the European Stock Account and the International Stock Account are each indexed to an MSCI index. MSCI indexes are licensed for use by iA Financial Group. For more information about the MSCI indexes, visit <https://msci.com/indexes>.

## INVESTED IN YOU.

iA Financial Group is a business name and trademark of  
**Industrial Alliance Insurance and Financial Services Inc.**

**ia.ca**