THE CANADIAN FOCUSED EQUITY PORTFOLIO- THREE YEARS IN

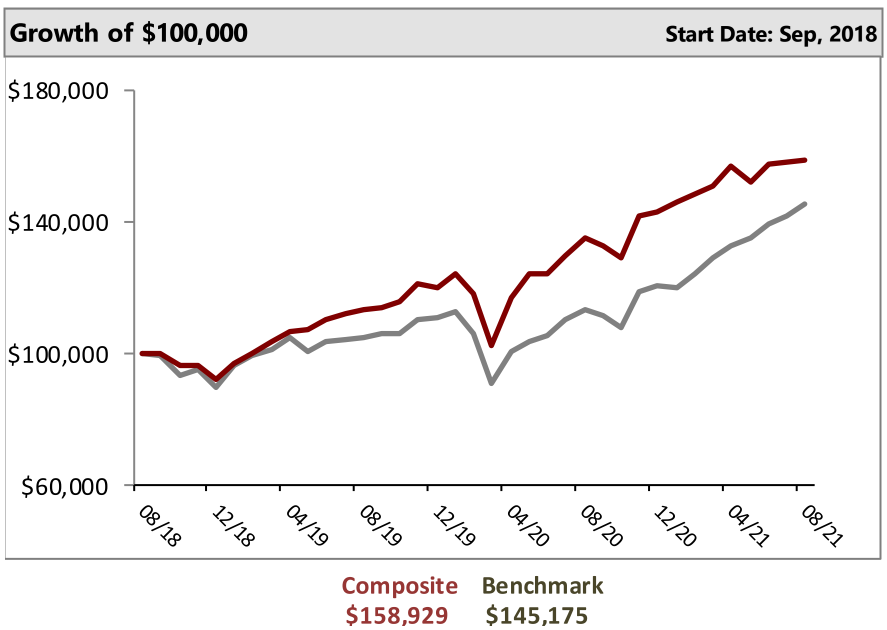
September 30, 2021

Cumulative Results

We started the Ballard Mudge Financial Group's first discretionary portfolio in mid-2018 and the first client money went into our Canadian Focused Equity Portfolio August 3rd 2018. Our official results are tracked starting September 1st, 2018. Since that time the portfolio has returned **16.70%** annually through August 31, 2021 beating the benchmark[1] return by **3.47%** annually.

This result is also ahead of our internal goal of compounding capital at rate of 15% annually.

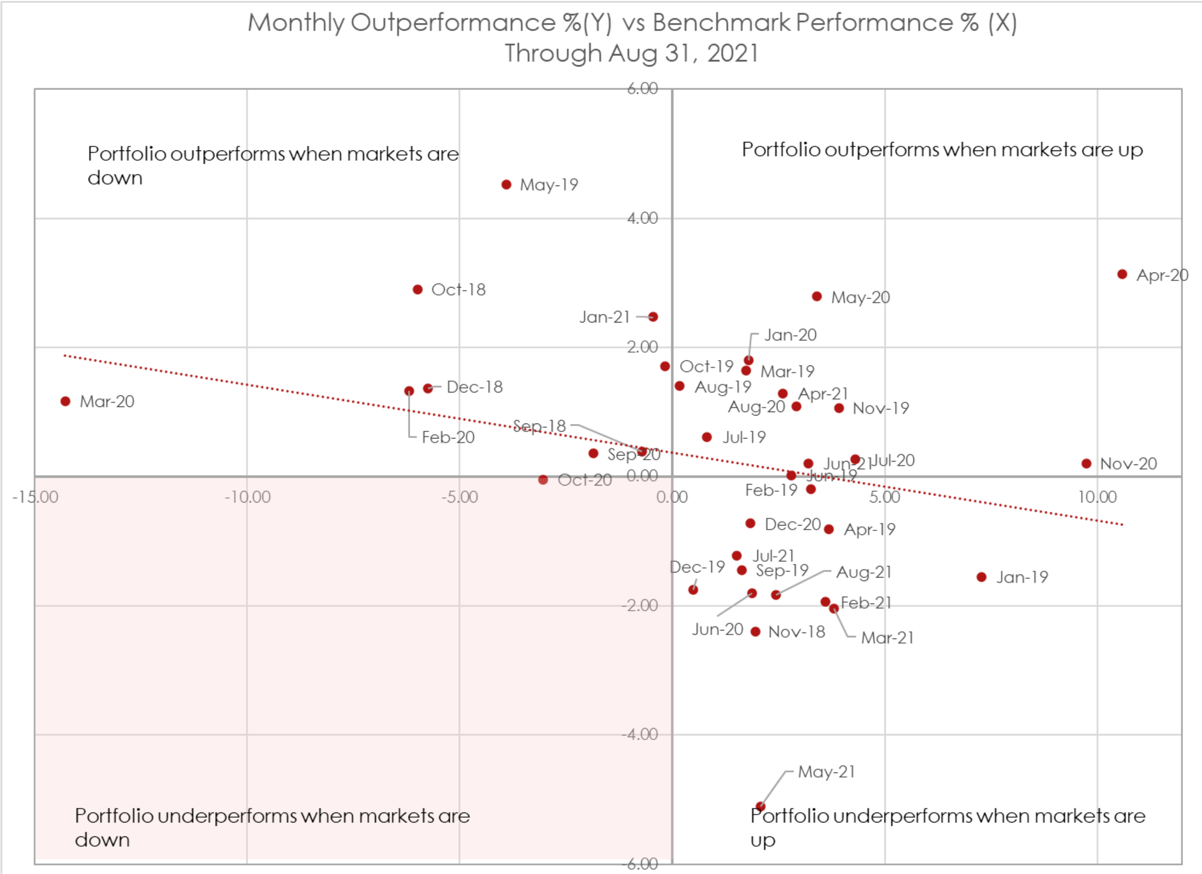
An initial investment of $100,000 would now be worth $158,929 on August 31st, 2021 vs the benchmark $145,175 over the same period.



The portfolio has achieved these results by outperforming when markets are weak and catching most of the upside when markets are strong. Historically the portfolio has captured 89% of the up market returns and only captured 68% of the negative returns in down markets.

Shown another way, the next graph shows that when markets are weak (the left side of the graph) the portfolio rarely underperforms (lower half of the graph). There are almost no data points in the lower left of the graph.

[1] 70% S&P TSX Composite/ 30% S&P500 reported in CAD



We have outlined our process and the characteristics that we look for in target companies in last year's post so we will not expand on it here.

Year to Date Review

Please find the annual returns in the table below.

Period	Canadian Focused Equity Return	Benchmark Return	Difference
YTD 2021 (8/31/2021)	10.99%	20.34%	-10.18%
2020	19.51%	8.89%	10.62%
2019	30.30%	23.52%	6.78%

While the cumulative returns and annual returns in the partial year of 2018, 2019 and 2020 showed outperformance, 2021 has not been without its challenges for the portfolio. Year to date through August the portfolio was up 10.99% vs the benchmark 20.34% return.

There are several reasons for this underperformance.

a) **Energy and Mining stocks**- Predominantly we are looking for companies with consistently high returns on capital and a predictable earnings profile. We do not claim or attempt to understand all of the macro and micro economic drivers that underly commodity price fluctuations and therefore largely avoid these sectors. While we have missed much of the boom in these sectors, we also have missed much of the pain in past years as the end markets for commodities collapsed. Our investors also tend to favour more ESG conscience investments wherever possible. We are willing to miss some of the upside offered by investing more heavily in these areas in exchange for being able to sleep well at night.

b) **MDF Commerce** has been a strange collection of internet business that were assembled under the prior Mediagrif branding. The company owned employment websites, classified ad sites, a wholesale diamond exchange site and several other disparate businesses.

Current management came to the company in September of 2019 and acted quickly to define the future vision of the company. They have made moves such as selling non-core businesses such as lespac.com, the predominately French language classified ad site and focusing resources on the core areas for potential growth.

The company has focused on two main businesses, strategic sourcing and unified commerce.

MDF Commerce already had a leading position in Canadian government contract sourcing through their MERX.com business and has since added to their position in the US with acquisitions of Vendor Registry and more recently Periscope Holdings. We believe that there can be positive network effects in this business as more purchasing agencies using the platform will make it more attractive for contractors to use the system. The more contractors using the system will then in turn warrant more government agencies using the system. Once installed it is doubtful that government agencies would change their methods quickly. Once the new purchasing process is in place, changing the inertia of a bureaucratic government agency is like trying to turn around an oil tanker in a canal[2].

When new management arrived, the company had 1/2 of a salesperson[3] devoted to the Orckestra product in their unified commerce business line. Orckestra is MDF Commerce's omnichannel ecommerce platform that lets larger retailers use their current inventory management systems and offer products for sale in store, online for delivery and online for instore pickup. The company currently lists national and international franchises Dollarama, Sports Experts, Dewalt Tools, Stanley Black and Decker, Craftsman Tools as clients.

Orckestra has also become a platform of choice for grocers opting to upgrade their online presence to offer customers a better user experience. The pandemic has accelerated this change. Orckestra has won the business of Canadian national chains Sobey's, IGA and Safeway as well as some smaller regional players. Late in 2020, MDF Commerce announced that the European grocery powerhouse Aldi had committed to a trial roll out of Orchestra in 200 of their UK stores. System wide Aldi has 10,000+ stores.

We believe that there are many opportunities for MDF Commerce to add value in either core business. There are further acquisition opportunities in the strategic sourcing business, organic growth opportunities in both key business lines and the potential to capture more value by processing the payments passing through their online platforms. There are also other opportunities to sell legacy businesses if the right deal were to come.

Unfortunately, I overestimated the speed in which MDF Commerce could roll out their Orchestra platform into the Aldi chain and build this recurring revenue platform more meaningfully. The rollout has been slowed by physical changes Aldi needs to do instore to accommodate the "click and collect" (order online and pick up in store) and the online delivery options. The holding is down 39.3% year to date through August 31st.

c) **Real Matters** offers a technology platform that allows residential real estate transactions to happen more efficiently. The company's Solidifi platform offers lenders a more efficient way to have appraisals completed.

Participating lenders using the system have qualified appraisers bidding for appraisal work by entering how quickly and cheaply they can get the work done. Real Matters is also active in the title and mortgage closing services space.

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2 Too soon?

3 MDF Commerce had one salesperson responsible for selling Orckestra and another product. As far as we know they did not hire any 1/2 salespeople.

Like Canada the United States is undergoing a housing boom with the Covid pandemic cutting travel and entertainment budgets and consumers focusing on the now more important home. Regardless the shares of Real Matters have fallen from an August 6, 2020 high of $32.81 to the recent price of $10.68. We bought it on multiple occasions in the $16.15-17.9 range.

There have been missteps like reducing resources earmarked for some lower margin business to allow for onboarding larger, higher margin customer who didn't utilize this capacity. In a booming real estate market these execution problems should be temporary.

Fortunately we are not alone in finding that it is undervalued. Real Matters has been busy buying back their own shares they have been buying back 19,600 to 22,900 shares per day for weeks[4]. As the price falls the company has increased the daily allotment.

Several insiders have also purchased shares during this period including William T. Holland. Mr. Holland is a director of Real Matters and the executive chairman of CI Investments. Through different entities tied to Mr Holland, purchases were made in Real Matters shares in 2021, his holdings now totalling 1.9M shares[5].

Insider buying and share buybacks are usually a good sign for the company (see the related post) and we are optimistic that the company can avoid repeating the same execution errors.

Our holding is down 32.6% year to date through August 31st.

d) **Tencent Holdings Ltd is** a Chinese internet company that is dominant in video games and has many other divisions that touch nearly every part of online life China. Of all the companies we look at Tencent ranks the highest for potential return but recent reforms by the Chinese government has left us uncertain about the quality of our estimates. Our positions were sold August 12th realizing a 28.4% loss over the short holding period.

e) **Cash drag**- Our goal is to find companies that can compound capital 15% annually and hold them for the long term. At times not all of our capital is deployed. We also try to balance the risk of owning equities with having cash reserves when markets look poised to fall over the shorter period. Cash has also built up in the portfolio when new money is added to the portfolio and it has not been fully invested yet.

These cash reserves helped preserve capital in the early stages of the pandemic selling in 2020 but has been a drag on performance in 2021. Through August, the only month with a negative benchmark return has been January.

It is important to note that 2021 has not all been negative. We did have several of our holdings that performed better than our 15% target. We have listed them on the following page.

4 Source Sedi.ca

5 Source Sedi.ca -Eastwood Capital Corp & WH Corp

Holding	Year To Date Return[6] (8/31/21)
Alphabet Inc	63.3%
Savaria Corp	49.5%
National Bank	41.4%
PrairieSky Royalty Ltd	38.6%
Facebook Inc	37.6%
S&P Global Inc	34.5%
Fairfax Financial Holdings	32.8%
Park Lawn Corp	31.2%
Moody's Corp	30.6%
Constellation Software Inc	29.5%
CVS Health Corp	27.7%
CCL Industries Inc	25.4%
Granite REIT	19.8%
Alimentation Couche Tard	16.8%

We sold our holdings in **Generac Holdings** Inc in March 2021 realizing a gain of 225.4% on the last shares held over our +/- 2 year holding period. Clearly we sold the shares too early but we had become concerned about the valuation of the company. We also sold our shares in **Slack Technologies** profiting 43.1% in our 2 month holding period. Yes, we got lucky with the timing of their acquisition by Salesforce.com.

We recently initiated a position in **Zoetis Inc.** the former animal healthcare unit of Pfizer. The shares are expensive but Zoetis is a high return on capital, cash flow machine that just received a COVID related bump to their business that should last 10-15 years.

Outlook

We have no crystal ball and don't value forecasts. We are likely to have more volatility than we have had in the past. Investors have to deal with low interest rates causing high equity valuations, the implications of the central banks removing support for the markets, a tight labour market, supply chain disruptions, a European energy crisis and the return to normal life in the face of the new variants of COVID 19.

We will be here to steer the ship.

Sincerely

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6 Source Croesus Advisor Data from the reference account

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David Mudge is a Portfolio Manager with CIBC Wood Gundy in Montreal. He/ and his clients may own securities mentioned in this column. The views of David Mudge do not necessarily reflect those of CIBC World Markets Inc.

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