

Q4 2023 INVESTOR UPDATE

Langdon Canadian Smaller Companies Portfolio

Performance	Q4-2023	2023 (YTD) ²	3-Year	5-Year	Since Inception ³
LEP 110 (Canada, F Class) ¹	10.3%	15.8%	N/A	N/A	13.7%
S&P TSX ⁴	8.1%	11.8%	9.6%	11.3%	6.4%

¹ Langdon Canadian Smaller Companies Portfolio, Class F – performance is net of fees
² YTD figure is inclusive of calendar year 2023

³ Annualized performance since inception date of August 23, 2022
⁴ S&P TSX Total Return

Our portfolio was up 10.3% in the quarter, ending the year up 15.8%. ¹The fourth quarter saw broad-based strength as bond yields declined. There were no material detractors in the quarter, with businesses like Richelieu Hardware, EQB, Enghouse Systems, Lumine Group, and Colliers International contributing to portfolio performance. While this is a pleasant outcome, it is not one that we would expect consistently. We are much more likely to experience detractors in the quarters and years to come. **We strive to be the best Canadian Small Cap investors, not the biggest**, and we recognize that in order to deliver 15% returns over a decade we have a bit more work to do. We spend a lot of time hunting for great, mispriced businesses around the world, and have found that many of these businesses are sitting in our own backyard.

It might seem odd that as investors focused on smaller companies, we have chosen to use a large-cap index in the table above. Why? **We have found that too often, investors dismiss smaller companies due to misconceptions** around investing in emerging growth businesses with higher volatility. In our process and philosophy, **smaller does not equal unproven**. Cash flow is our North Star, and we seek to own businesses that can generate cash through different macroeconomic environments; positioning the business to compound and come out of an economic cycle stronger. We compare our portfolio's characteristics to large-cap businesses in our quarterly [factsheets](#) for this exact reason: we take a blue-

¹ Above chart and analysis based on the [Langdon Canadian Smaller Companies Portfolio – December 2023 Fact Sheet](#). These net performance figures cover the period from August 26, 2022 to December 29, 2023, and has been provided by Morningstar Inc.; for the Canadian Portfolio at Morningstar-LEP110. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all 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. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Quartile rank is sourced to Morningstar Inc. – For the Canadian Portfolio Morningstar-LEP110 based on CAD | YTD Investment as of Dec 29, 2023 | Category: Canadian Small/Mid Cap Equity as of Dec 29, 2023 | Index: Morningstar Canada Sml GR CAD as of Dec 29, 2023 based on a total of 185 Invest. In Cat. These ratings or rankings are subject to change every month.

chip approach to small cap investing and believe that the collection of businesses we own are just as proven as their large cap peers and business output should be measured relative to not just to small cap benchmarks but to all caps, including large.

Our time searching for new investments focuses on proven companies; we are not hunting for lottery tickets (extremely low probability of extremely high payoff). This had been highlighted in an earlier commentary but is worth repeating: **the average age of the businesses in our Canadian portfolio is 41 years**, with the average founding year of 1983. These businesses are established, profitable, and are run by capable and proven operators.

This being said, there are still cases in which management teams encounter challenges, and we are invested in understanding how they handle these situations. A recent example would be Aritzia, which despite contributing positively in the fourth quarter was a material detractor over the year. In early 2023 we wrote about **the importance of investing as an owner**, and discussed the headwinds Aritzia was facing as it spent on infrastructure to support the significant growth it had seen the past few years. Unfortunately, there were additional setbacks that the business announced in May 2023. Aritzia had started to see market share losses due to a lack of innovation, which in combination with declining consumer confidence, led to the share price declining 40% in the year. Many of you would have heard us explain how **we diligence the people separate from the business**, and Aritzia is no exception. **As investors with an ownership mindset, we spend a lot of time building relationships with management teams in both good times and bad in order to better inform our decision making.**

Aritzia's management had been catching up on necessary investments following a period of exceptional growth, with its U.S. and eCommerce businesses more than tripling since the onset of the pandemic. For context, it took Aritzia 35 years to reach \$1 billion in sales in North America, but less than 3 years to add an incremental \$1 billion in sales! Aritzia historically has been disciplined in its growth journey and a very good steward of capital (\$3.7B market capitalization and \$1.6B of capital invested).²

Looking forward, we are confident that Aritzia is set to get back to doing more of the same. With the bulk of its investments approaching the rear-view mirror, profitability and cash flow is set to recover and inventory levels have recently normalized to healthier levels. As we discussed in early 2023, we invest like owners, and we view Aritzia's investments constructively as they provide the business with a strong foundation to continue to build upon in the years to come. While Aritzia was a material detractor to performance, it is exactly the opportunity we seek to capitalize on as long-term investors.

In the Canadian Portfolio, the businesses we own have been doing 'more of the same' for an average of 41 years! While Canada is a smaller hunting ground, it doesn't mean that you can't find and invest in world class companies, and **we continue to be excited by short-term stock market fluctuations that provide opportunities for long-term investors like ourselves.** Thank you for your continued support.

Langdon Investment Team

² Artizia figures including sales, market capitalization and capital invested obtained from various sources including <https://www.bloomberg.com/profile/company/ATZ:CN?embedded-checkout=true>

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Link to the Langdon Global Smaller Companies Portfolio Disclosure Documents: [here](#)

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