NCM **Investments – Small Companies Strategy**

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Commentary
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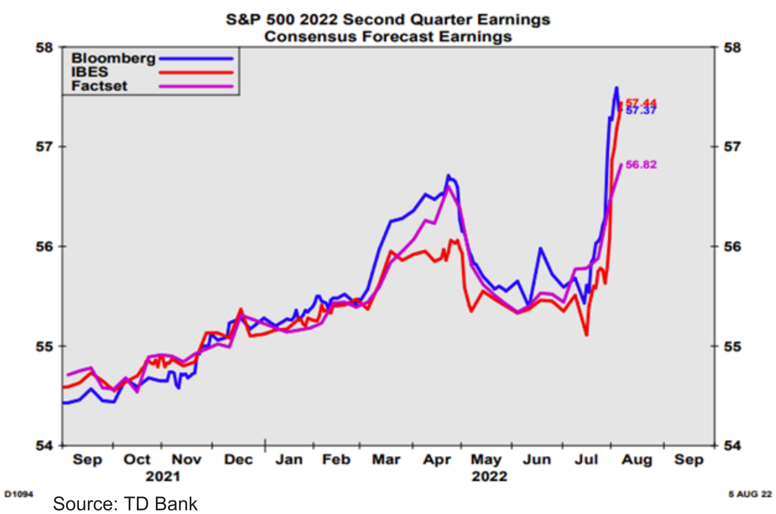
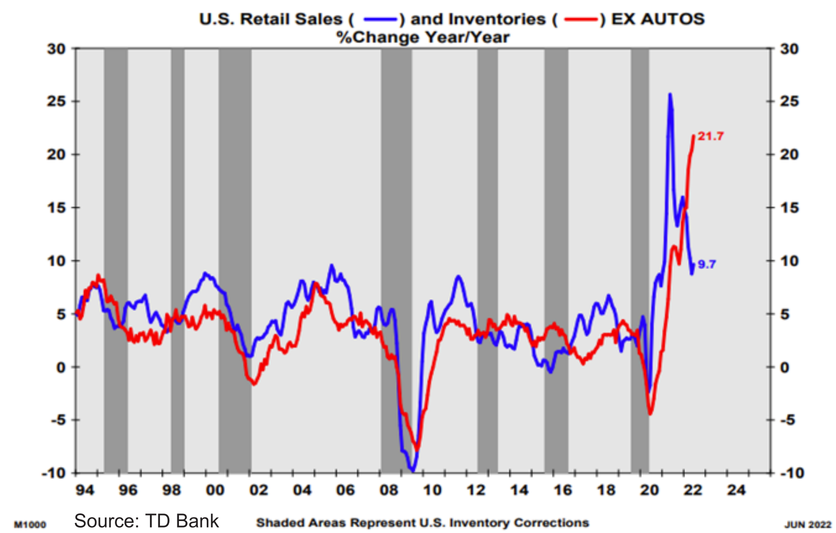
MARKET COMMENTS:

Equity and bond markets have been anything but reliable. Inflation, war and interest rates have been the primary concerns. Equity markets, being the forward looking machine that they are, have "baked in" a significant slowdown for the back half of 2022 and the beginning of 2023. Although there are plenty of reasons to be optimistic that the stock market lows have been set, price volatility will continue. S&P 500 Q2 2022 earnings are coming in ahead of expectations and the employment has been very strong, especially in the U.S..



Inflation has rolled over providing a sense of relief for the markets. We expect that, although sticky, inflation will continue its downward trajectory as inventories in the retail channel continue to increase faster than retail sales. Eventually this will force retailers such as Target and Walmart to incentivize shoppers in order to free up working capital.



PORTFOLIO UPDATE:

One of the changes we made for the NCM Small Companies strategy is to reduce our weighting in companies reliant on the Canadian housing market. We have also added to a high-quality Calgary based energy service company that is generating lots of free cash flow, has a strong management team and is benefiting from very strong energy prices.

INTERESTING FYI:

An interesting observation is how the decision to buy more energy a year ago is paying off for investors in the NCM Small Companies strategy. At that time, the iron clad rule of supply and demand was pushing oil prices higher. Currently, we are witnessing massive dislocation happening in the oil and gas supply chain as a result of the war in Ukraine. Looking forward, we see a desire on the part of consumers to travel. This will continue pressuring already tight inventories.

STRATEGY METRICS:

The portfolio has 33 positions currently with a combined trailing price to earnings ratio of 12.5x and a current year price earnings ratio of 10x. The current year price to cash flow ratio is an attractive 4.6x. From a profitability perspective, the strategy looks impressive with a trailing return on equity ratio of 17.7% versus our benchmark at 10.0%. Our return on capital is 17.0% versus the index at 12% showing how much more profitable our holdings are. From a growth perspective, the strategy's earnings surprise, estimate revisions, and quarterly earnings momentum statistics look significantly better than the both the index and the S&P/TSX Composite – meaning that our companies are growing more quickly. Lastly, our free cash flow yield is 8.3% versus 5.0% and 5.3% for the BMO Small Cap Equity Index and the S&P/TSX Composite Index respectively.

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Investments

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