



Caldwell North American Equity Strategy - Monthly Update

Portfolio Additions

Steris

About the Company: Steris sells equipment to hospitals (sterilization equipment, tables, lights, trays in the operating room), and provides services to hospitals, medical device and pharmaceutical companies (surgical instrument cleaning, sterilization and repair and medical device sterilization). Steris benefits from growth in surgical procedure volumes and the outsourcing of sterilization services by hospitals. 2/3 of the company's revenue is recurring under long term service contracts, making for an attractive business model through economic cycles.

Investment Thesis: The stock has materially underperformed the market and its peer group since the beginning of the year. The reasons for the under-performance seem temporary: i) timing around capital equipment spend; ii) a shift in the company's investor base following an acquisition; iii) additional moving parts within the company's financials following the acquisition that management has had some 'growing pains' communicating to the market; iv) FX impact following Brexit. We view this as an attractive entry point and expect the shares to move higher as these temporary headwinds subside, and as investor focus shifts to growth opportunities driven by strong secular trends around surgical procedure growth and efficiency needs of hospital networks.

Portfolio Deletions

Williams Sonoma (WSM)

Reason we sold the stock: We exited our position following the company's Q2 earnings report where results were in line with expectations but full year guidance was lowered on retail softness. As with many sell decisions, the signals were not black and white. Expectations were low going into the quarter and the company executed well on the gross margin, inventory and expense lines. However, same store sales declined across all banners and the company is entering the most competitive time of year (Halloween, Thanksgiving and Christmas), which creates a bit of a wild card for results the next couple of quarters. We ultimately exited the position because our original investment thesis is not playing out as expected. Specifically, stronger housing numbers are not translating into higher sales and some of the margin improvement we were expecting from supply chain issues easing is being offset by additional supply chain investments.

Company Updates

Parkland Fuel (tsx:PKI)

Parkland Fuel, a core holding in the portfolio, continues to execute on its strategy of consolidating the fuel distribution market, announcing the acquisition of the majority of CST's Canadian assets. This brings the Ultramar brand to Parkland's portfolio and expands the company's presence in Quebec and Atlantic Canada, making Parkland the leading fuel retailer in Canada with 1,555 sites. Parkland's strategy has created tremendous value for Parkland shareholders and this deal adds to that value creation. We continue to own shares as Parkland continues to have a robust pipeline of opportunities to create further value for shareholders.

We appreciate your continued support.

Best Regards,

Portfolio Management Team

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