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## Canadian Small Cap Strategy

### Key Takeaways

- ▶ The S&P/TSX Small Cap Total Return Index capped a historically strong year with a 10.2% gain in the fourth quarter, with performance heavily concentrated in the resource sectors—particularly metals and mining.
- ▶ The Strategy delivered a positive absolute return but underperformed the benchmark, primarily due to an underweight in materials.
- ▶ Energy was a point of strength in the quarter, partially offsetting weakness in industrials, real estate and financials.

### Market Overview

The historic run in metals prices, both precious and industrial, was the dominant theme of Canadian small caps in the fourth quarter and full year. Gold, silver and copper all ended the quarter just shy of all-time highs after posting double-digit gains during the quarter, ending a historic year for the key metal benchmarks with gold up 64%, copper up 41% and silver up an astonishing 141%.

The run in metals pricing had a profound impact on the S&P/TSX Canadian Small Cap Index. At the start of 2025, metals and mining equities represented just over 25% of the index, with gold and silver representing nearly 20%, and diversified mining/copper companies another 5%. The rally pushed metals and mining weightings to approximately 36% of the Index by year-end, with precious metals representing roughly 25% of the overall Index.

### Exhibit 1: Small Cap Sector Performance

<b>S&amp;P/TSX Small Cap Composite Index</b>	<b>4Q 2025 Total Return</b>
Communication Services	6.2%
Consumer Discretionary	-9.0%
Consumer Staples	-6.8%
Energy	10.1%
Financials	4.6%
Health Care	0.5%
Industrials	9.0%
Information Technology	-11.2%
Materials	22.5%
Real Estate	-5.4%
Utilities	-8.1%
<b>S&amp;P/TSX Small Cap Composite</b>	<b>10.2%</b>

Source: FactSet.

The result was a 10.2% fourth quarter gain for the S&P/TSX Canadian Small Cap Index to finish 2025 up 50.2%. For the fourth quarter in particular, leadership was narrow with only the materials and energy sectors producing returns at or above overall index performance. Performance was mixed outside of the resource sectors: health care, industrials, financials and communication services produced positive returns while consumer staples, consumer discretionary, information technology (IT), real estate and utilities saw losses. Given the benchmark's concentration in resources, positioning in materials and energy was a key determinant of relative outcomes during both the quarter and the year.

An underweight position in materials—precious metals in particular—combined with negative stock selection in industrials, real estate and financials caused the Strategy to underperform the benchmark by ~500 basis points (gross of fees) during the fourth quarter. Energy, meanwhile, was a notable point of strength, where positive sector allocation and stock selection partly offset weakness elsewhere.

## Outlook

Our investment approach remains bottom-up and research-driven, supported by a patient culture and a long-term horizon that allows us to act when expectations diverge from fundamentals. We continue to focus on businesses that pair prudent capital allocation with durable competitive advantages, strong balance sheets and the ability to compound value over time.

Entering 2026, we expect Canadian small caps will have to contend with continued event risk—including the review of the North American trade agreement, the state of the North American consumer, the durability of AI-related capital expenditure cycles and an energy market that appears oversupplied. After a volatile 2025, we expect dispersion to remain elevated and to create opportunities for active investment managers.

Materials and energy represent nearly two-thirds of the Canadian small cap index. The path of gold, silver, copper, oil and natural gas prices will, therefore, have an outsized influence on overall market direction.

Within materials, we remain biased toward copper producers and precious-metals royalty/streaming companies. Copper supply constraints, combined with growing demand linked to power generation and electrification, provide a constructive long-term setup for copper pricing. Our gold exposure is concentrated in royalty/streaming businesses, which offer diversified participation across multiple projects and jurisdictions while mitigating operational, geopolitical and geological risk. That said, sector-wide capital allocation discipline remains uneven; we remain selective and will continue to reassess assumptions as valuations and fundamentals shift.

Within energy, we are attentive to commodity price risks. Oil pricing was softer in 2025 as expectations for an oversupplied 2026 came into

focus and Western Canadian natural gas prices were volatile as producers positioned volumes ahead of the ramp in LNG exports. In this environment, we favor producers with well-defined cost and resource advantages and energy service companies with demand drivers that are less sensitive to swings in energy prices.

M&A continues to be a consistent theme in Canadian small caps. Several small and mid-cap issuers have pursued go-private transactions or strategic sales over the past two years, highlighting what we view as generally attractive valuations and persistent investor apathy. We do not position the portfolio specifically to target deal outcomes, but we expect to either benefit directly from transactions or to use them as signposts for intrinsic value in adjacent opportunities.

We also see a developing, longer-term opportunity as the Canadian federal government advances a more supportive policy mix. Steps aimed at easing internal trade frictions, accelerating approvals for major “nation building” projects and reinvesting in national capabilities can improve private-sector visibility and catalyze activity over a multi-year horizon. Regardless of how events unfold, we believe high-quality growth companies—with appropriate capital allocation policies, durable competitive advantages and sound capital structures—are best positioned to weather uncertainty and improve competitive positions in volatile markets.

### Portfolio Positioning

Volatility and ongoing M&A activity allowed us to remain active during the quarter. We initiated one new position, exited two holdings and adjusted weights across a range of names as opportunities presented themselves.

We added Lumine Group, a vertical market software company focused on acquiring and operating software businesses in the communications and media industry. We have followed Lumine closely since it was spun out of Constellation Software in 2023 but had been cautious on valuation. A broader re-rating in software valuations and growth expectations—particularly as markets assess the opportunities and risks associated with AI—brought the stock to a level we considered more attractive. We believe Lumine’s leading position in its vertical markets and its proven acquisition model provide a relatively defensive posture amid technology disruption.

We exited Sandstorm Gold Royalties following its acquisition by U.S.-based Royal Gold. We reallocated the proceeds to other metals and mining exposures, primarily Triple Flag Precious Metals and OR Royalties, consistent with our preference for asset-light, diversified royalty/streaming models. We selectively added to copper producers such as Capstone Copper and Hudbay Minerals on idiosyncratic weakness. Overall, the quarter resulted in net buying of metals and mining equities of approximately 100 bps.

We exited Transcontinental as, although we hold the company's leadership and execution in high regard, the stock approached our assessment of intrinsic value and we redeployed capital to opportunities with more attractive risk/reward.

We also added to several high-quality cyclical companies that have lagged the broader market—including Pet Valu, Propel Holdings, Descartes Systems, ATS Corp and Topaz Energy. In each case, we viewed the pullbacks as providing an opportunity to increase exposure at more attractive valuations.

Finally, we trimmed several positions in financials and energy. Despite an uneven commodity tape, our energy holdings performed well and we used the strength to manage position sizes and rebalance toward higher-conviction opportunities.

### Portfolio Highlights

The Strategy underperformed its S&P/TSX Small Cap TRI benchmark in the fourth quarter. On an absolute basis, the Strategy had gains in six out of the 11 sectors in which it was invested. The primary contributors were energy and materials while real estate and IT were the main detractors.

Relative to the index, overall sector allocation and stock selection detracted from performance. In particular, stock selection and an underweight to materials—particularly precious metals—as well as stock selection in industrials, real estate and financials had the most negative impacts on results. On the positive side, stock selection in energy, utilities, consumer staples and IT sectors and underweights to consumer discretionary and health care contributed to performance.

On an individual stock basis, the leading relative detractors were OR Royalties, FirstService, Propel Holdings and not owning G Mining Ventures and Discovery Silver. The leading relative contributors were Enerflex, Lundin Mining, Hudbay Minerals, Headwater Exploration and not owning Allied Properties.

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