

TRADING ACTIVITY

BARRANTAGH INVESTMENT MANAGEMENT Canadian Small Cap Equities

Following the steep market sell off at the outset of the COVID-19 pandemic, markets snapped back during the second quarter in one of the strongest periods for global markets in decades. This strong performance from financial markets in many ways ran counter to the immediate economic realities as lock-down measures around the world stifled business activity. Nevertheless, the sweeping monetary and fiscal support from governments cushioned the blow for many and worst-case scenario outcomes were averted. As the period progressed and economic lows in April gave way to incrementally better data, investors grew more comfortable in looking past the current turmoil and focusing on what normalized activity could look like coming out the other side of the pandemic.

As highlighted in last quarter's commentary, smaller cap stocks tend to outperform in market recoveries (offsetting the declines of the market sell off). This is what took place with Canadian equities as the S&P/TSX Small Cap Index more than doubled the +17% of the S&P/TSX Composite during the quarter. The Fund's positioning in quality businesses cushioned the downside versus the small cap index during the sell-off and outpaced the recovery of larger cap stocks during the market rebound. This has resulted in the Fund outperforming both small-cap and large-cap indices through a tumultuous 2020.

After a roller-coaster first half of 2020, the key question becomes where do we go from here? It is widely accepted that the economy faces a potential flat period. Monetary and fiscal stimulus continue to be the bridge to get businesses and consumers to the other side, though some level of permanent job loss in the medium term is expected. Absolute valuations on current earnings seem expensive (large impacts from sweeping lock downs) with varying levels of economic rebound being priced in and uncertainty remains regarding what shape the recovery will ultimately take. However, extremely low bond yields tend to lift the valuations of other securities and continues to highlight the relative attractiveness of equities versus other alternatives. Our view remains constructive given our focus on individual company valuations and the Fund's exposure to a focused portfolio balancing long-term cashflow growth with near-term capital preservation.

BUYS

People Corp. (PEO) - New

People Corp is a Canadian group benefits administrator and consultant with sticky recurring revenues and is an asset-light, high-return business. They have delivered strong historical organic growth and continue to execute on attractive and accretive consolidation opportunities in the fragmented group benefits space. The March sell-off created a valuation opportunity to gain exposure to a high-

quality name with attractive secular growth prospects.

Summit Industrial REIT (SMU-U) - New

Summit Industrial REIT is a Canadian-focused Industrial REIT with over 50% of the portfolio in the highly attractive Ontario market and ~80% of rents focused on warehousing/ distribution. Industrial landlords are benefitting from e-commerce tailwinds that have accelerated substantially with changing consumer buying behavior in a post-COVID world. Management has an excellent track record, delivering strong returns for unit holder in a previous “Summit” entity that grew into Canada’s largest pure-play industrial portfolio before being sold in 2006. The underperformance in the REIT space in 2020 generated an opportunity to add this advantaged business at an attractive price.

TransAlta Renewable (RNW) - New

Canada’s largest wind producer should benefit from the continued shift around the globe to reduce fossil fuels in power generation. Stable contracted revenues and cash flows combine with a strong balance sheet, attractive valuation, and a compelling dividend yield.

SELLS

The strategy reduced its cyclical footprint with the sale of Wajax in the quarter based on concerns related to dividend sustainability and leverage, given the the COVID-19 demand destruction.