BARRANTAGH Investment Management | 1995 | 2020 25 Years

Q3 2020

TRADING ACTIVITY

BARRANTAGH INVESTMENT MANAGEMENT

Canadian Small Cap Equities

Markets continued the economic reopening rally in the third quarter before settling into a more volatile September. A broad economic recovery aided by substantial government stimulus, drove improving consumer sentiment and business activity levels over the summer. Most recently, as economies have continued to open (schools, restaurants, etc.) there are many regions managing a second wave of infection diagnoses, introducing uncertainty around the path to full recovery. Looking ahead, all eyes are on the November U.S. election, with potential for more short-term social and political upheaval regardless of the outcome suggesting volatility will remain.

In Canada, we have seen a large dichotomy of stock performers in 2020. The large-cap S&P/TSX Composite Index is down 3.1% year-to date, though without the contribution from tech giant Shopify (SHOP) and the gold sector it would be down 11%. Despite rallying strongly during the second and third quarters, the small-cap benchmark is down -8.6% for the year, with golds and consumer staples being the only meaningful positive contributors. By contrast, the strategy is positive year-to-date. The holdings have been positioned extremely well and have performed strongly as a group on both an absolute and relative basis, outperforming the benchmark and the S&P/TSX by a wide margin during the quarter and year-to-date. The largest contributors in Q3 were utilities, consumer staples, health care, industrials, and energy, with materials (golds) the only material detractor.

As alluded to at the opening, markets have struck a more cautious tone after the strong rally in risk assets. No one knows exactly how pre-vaccine business activity levels will unfold over the next six-to-twelve months, however we continue to expect governments to be highly supportive with stimulus but at some point, this will be tapered off. 2020 has been a year unlike any other in recent memory and it has taught us much. Notably, it has reinforced our long-held view of the benefits of bottoms-up fundamental analysis at the equity level as a key alpha generator, as opposed to the folly of trying to profit from top-down macro predictions. Therefore, despite the ever-present uncertainty, we will continue looking to uncover undervalued businesses with quality cash flows set to grow their intrinsic value over time.

BUYS

Dye & Durham (DND) - New

One new name was added to the portfolio in Q3: Dye & Durham (DND) a cloud-based legal software provider with an entrenched market position and demonstrated pricing power. DND is new to the public markets completing its initial public offering in July. Common to the technology sector, DND has displayed strong organic growth and a promising M&A pipeline. Not as common in the technology sector, the Company is highly profitable, generates strong free cash flow and pays out a dividend. Most importantly, the IPO pricing was very reasonable, and the stock has performed extremely well since it began trading. Given the strong run, we look for a larger margin of safety to our target before adding to this new position.

SELLS

None.

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