

# **BARRANTAGH**

Investment Management

## **Update – Sept 30, 2020**

- Firm Update
- Key Mandate Review
  - Small Cap Canadian Equities
  - Canadian Equities Income
- Economic Update



## **Architect Program**

# Firm Update

## FIRM PROFILE

- 100% employee-owned investment managers since 1995
- 17 employees, firm ownership expanded to 6 employee-shareholders
- AUM: \$1 Bn (private wealth, institutional, sub-advisory)
- Fundamental quality value style

## STRATEGIES OFFERED

- Balanced Mandates – active asset mix mgmt.
- Fixed Income – Credit barbell + active duration mgmt.
- Equity Strategies – Focus Portfolios (20 – 40 stocks in a strategy):
  - **Small Cap – quality/yield focus**
  - Mid Cap – S&P TSX Completion Index
  - All Cap Cdn Equities
  - **Income – yield focus**
  - Global Equities – Global leaders + Special situations

## FIRM UPDATE

### **Barrantagh celebrating 25 years in business!**

#### **COVID 19:**

- Operating remotely with full trading, portfolio accounting, investment team and client service capability
- Rotating limited office schedule & video conferencing

#### **Diversification Strategies:**

- Small Cap – new prospectus fund launched in Q2/19
  - ‘F’ Class – 1.0% MER, 12-year composite track-record
- Mid Cap – reached 3-year track record end of Q2

#### **ESG Integration Update:**

- Completed UN PRI signatory process (2019) & formalized BIM Responsible Investing Policy

#### **Sub-Advisory News:**

- Awarded new SMA mandate at key bank brokerage firm broadening our offerings to 4 leading IIROC firms

#### **Website Upgrade 2020:**

- Launched July, 2020
- Improved navigation, functionality & content
- Advisor Portal

# Barrantagh

## Competitive Advantages

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### Barrantagh

### Outcomes

#### Investment Boutique

- 100% employee-owned & independent
- Investing in small, mid-size & larger companies with minimal trading impact
- Integrated client-focused team

#### Quality/Value investing style

- Capital preservation/absolute returns
- Low portfolio risk metrics

#### Fundamental bottom-up research

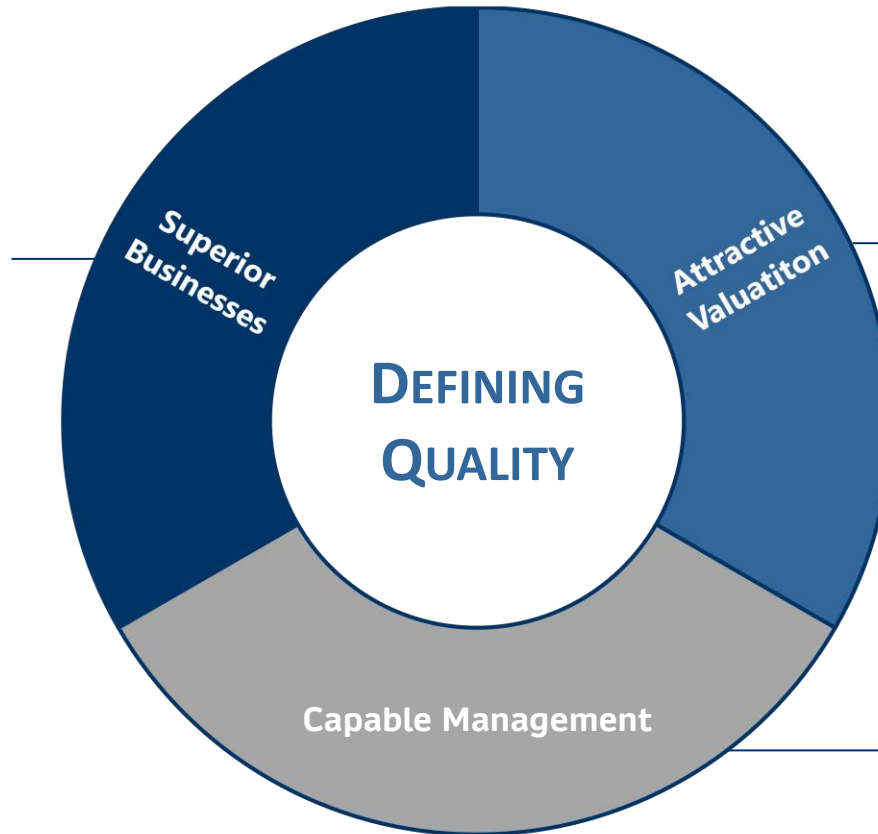
- Focused “Best Idea” portfolios
  - Low portfolio turnover
-

# Investment Philosophy

## Defining Quality

### IDEA GENERATION

- Competitive advantages
- Industry leaders
- Pricing Power
- High return on capital
- Low capital intensity
- **ESG** Profile



### INDEPENDENT VALUATION

- Cashflow analysis
- Independent valuation
- Forecast use of leverage
- Quality reduces risk
- Buy/Sell Targets

### MANAGEMENT INTERVIEWS

- Aligned with shareholders
- Clear business strategy
- Record of value creation
- Low cost operators
- Conservative use of leverage



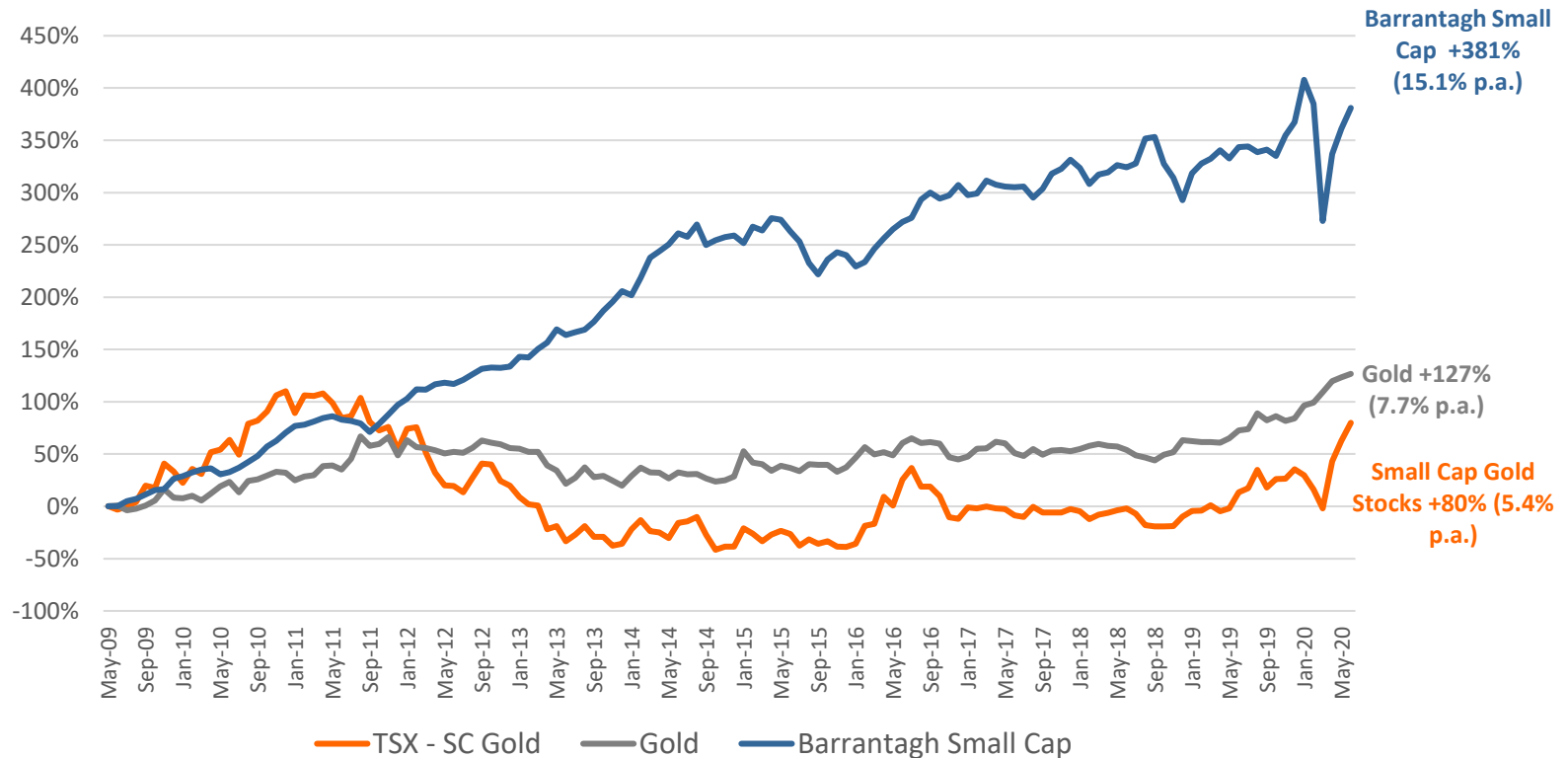
## OBSERVATIONS:

### Small Cap Canadian Equities

# Small Cap Canadian Equity Mandate

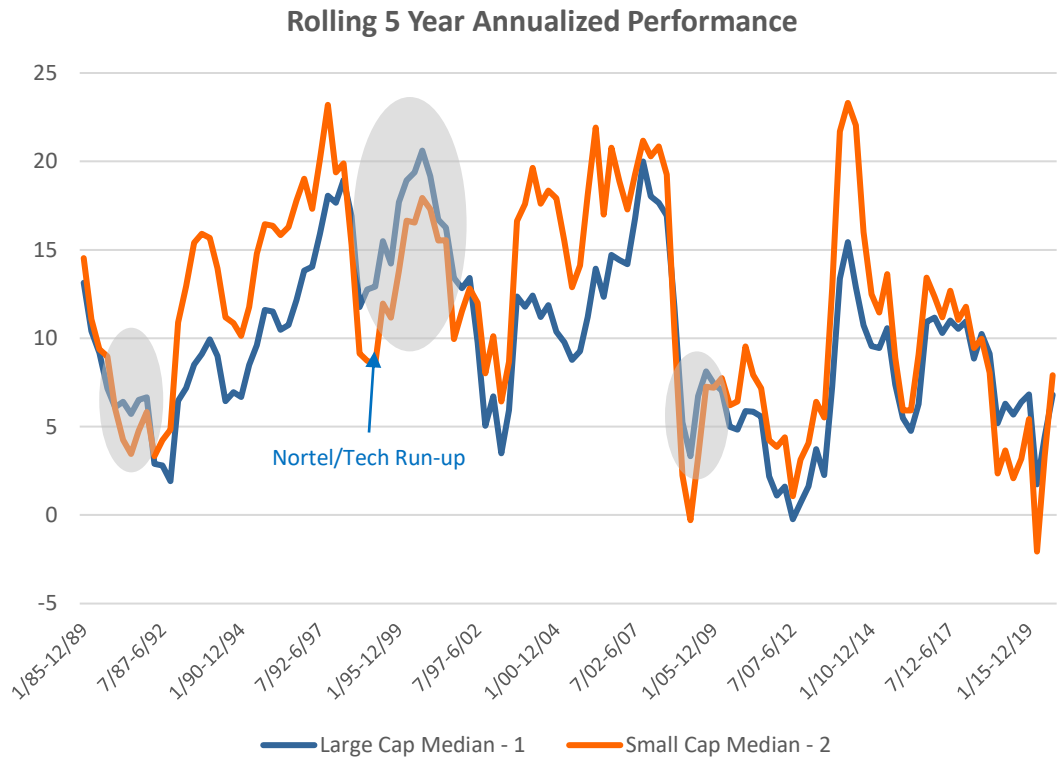
Junior Gold Miners: Underperforming/Volatile & Poor Commodity Tracking

## Cumulative Returns ~ 10 Years



# Canadian Equity Markets

## Small Cap Median Beats the Large Cap Median 71% of the time Since 1985



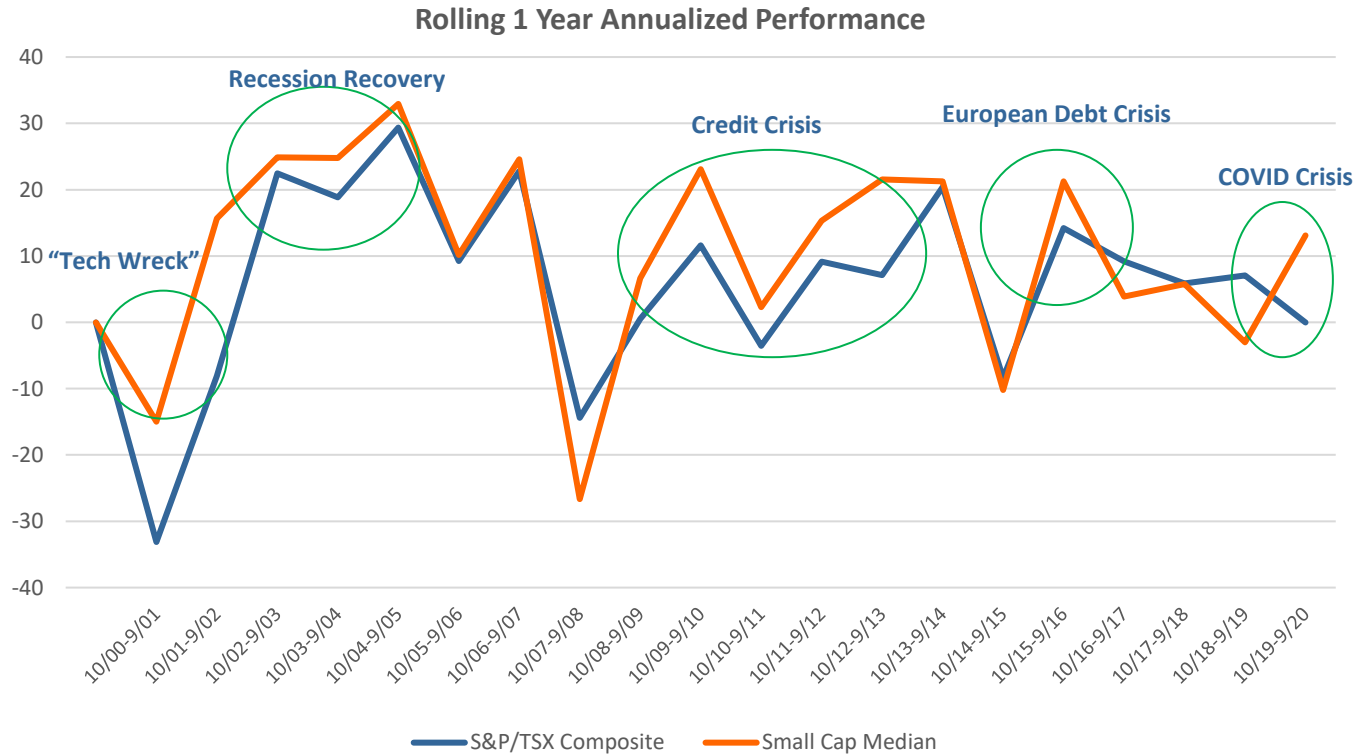
- Periods of small cap *active manager* underperformance are not persistent and as the shaded areas indicate the difference in performance for those periods was only 2-3%

<sup>1</sup>Evestment Large Cap Canadian Equity

<sup>2</sup>Evestment Small Cap Canadian Equity

# Small Cap Median Manager Outperforms on Rebounds

## Beats the Large Cap TSX Composite on Market Recoveries

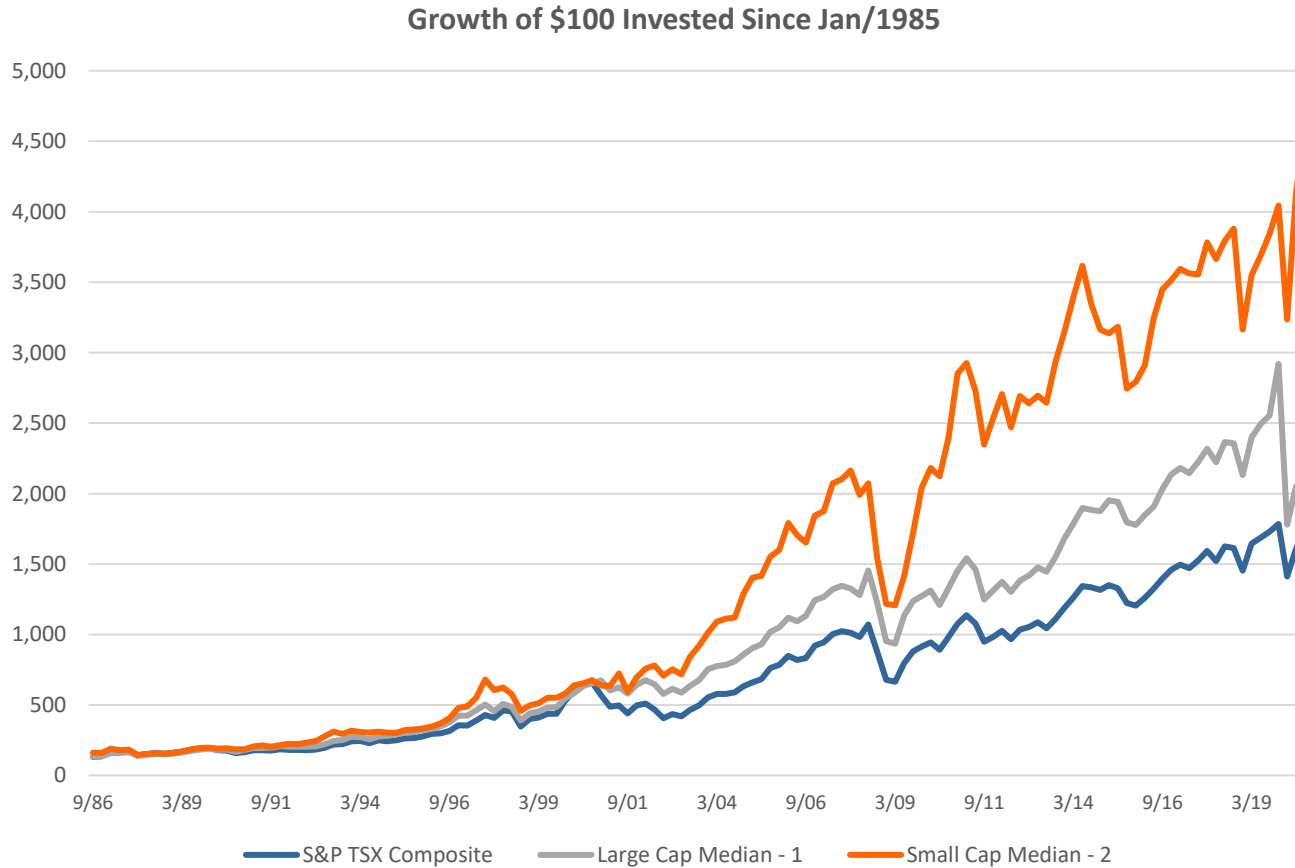


**1 Yr Ended Sept. 2020**  
**Small Cap Median +13.1%**  
**TSX Comp. -0.03%**



# Canadian Equity Markets

## Growth of \$100 since Jan/1985



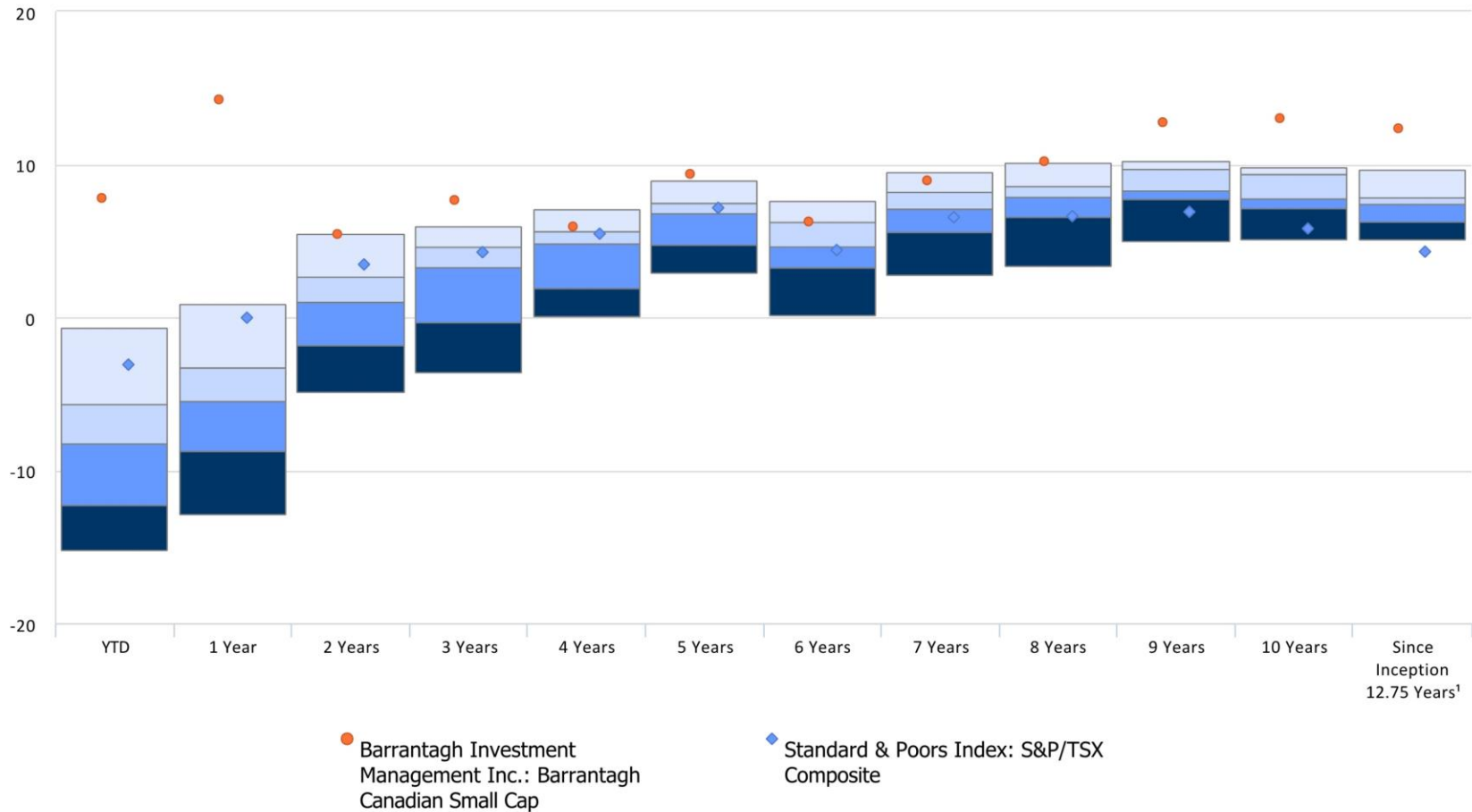
<sup>1</sup>Evestment Large Cap Canadian Equity

<sup>2</sup>Evestment Small Cap Canadian Equity

# RETURNS: Small Cap Canadian Equities

Strong Performance vs. Large Cap Core & Cdn Dividend Strategies (for Periods Ending Sept. 30, 2020)

Returns as of: September 30, 2020

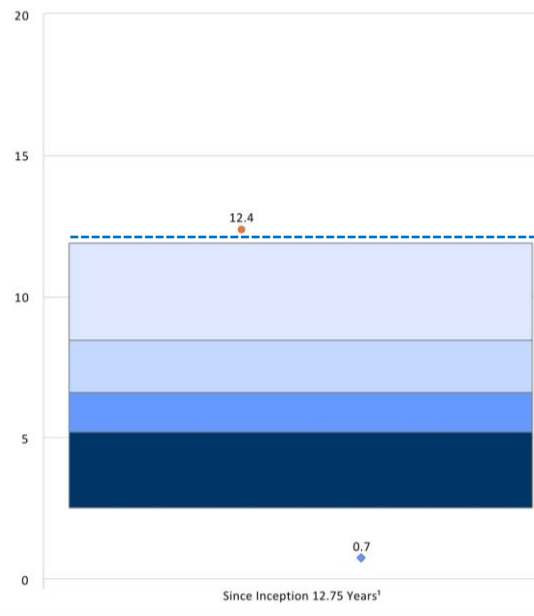


Universe: eVestment Canadian Dividend Focus Equity

# RETURNS: Small Cap Canadian Equities

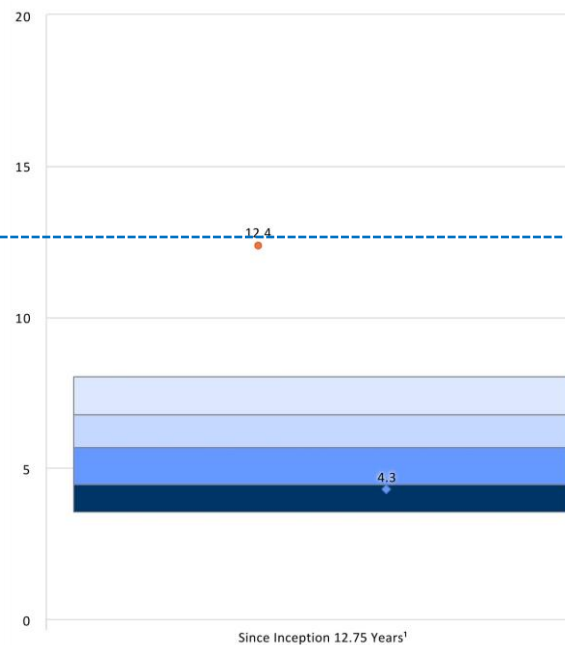
Strong Performance vs. Large Cap Cdn & Global Equities (for Periods Ending Sept. 30, 2020)

Canadian Small Cap Universe



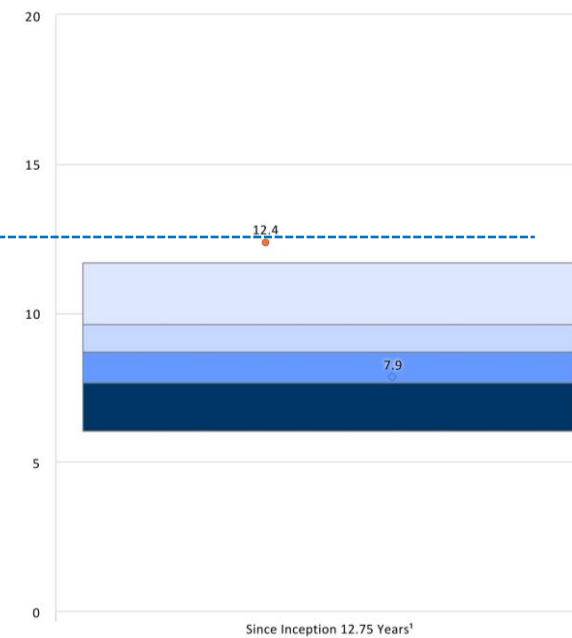
● Barrantagh Small Cap  
◆ TSX Small Cap Index

Canadian Large Cap Universe



● Barrantagh Small Cap  
◆ TSX Composite Index

Global Equity Universe (\$C)

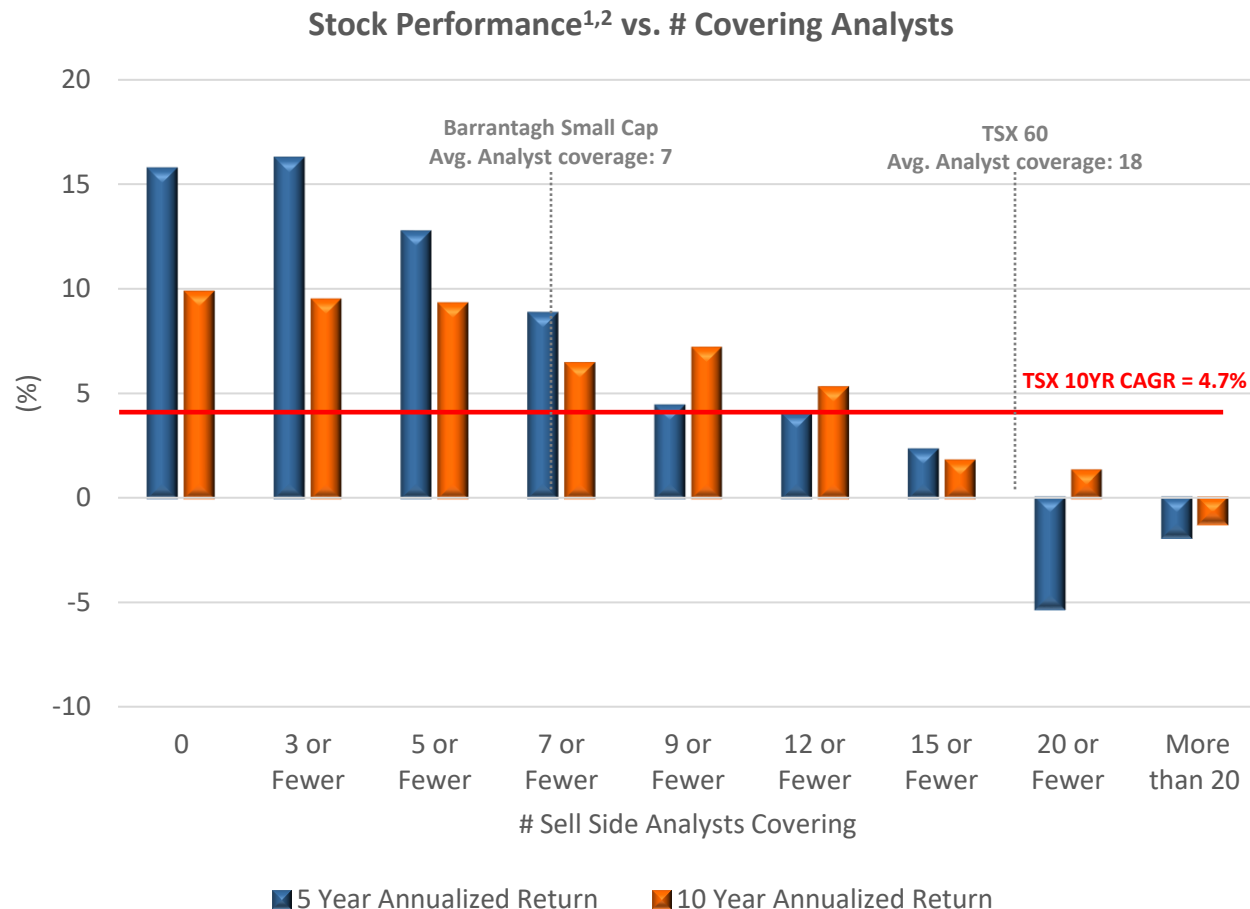


● Barrantagh Small Cap  
◆ MSCI World Net (\$C)

Strategy Inception Date: Jan. 1, 2008

# Small Cap Canadian Equities

## Information Advantage: Lack of Research Coverage Creates Opportunities in Small Cap



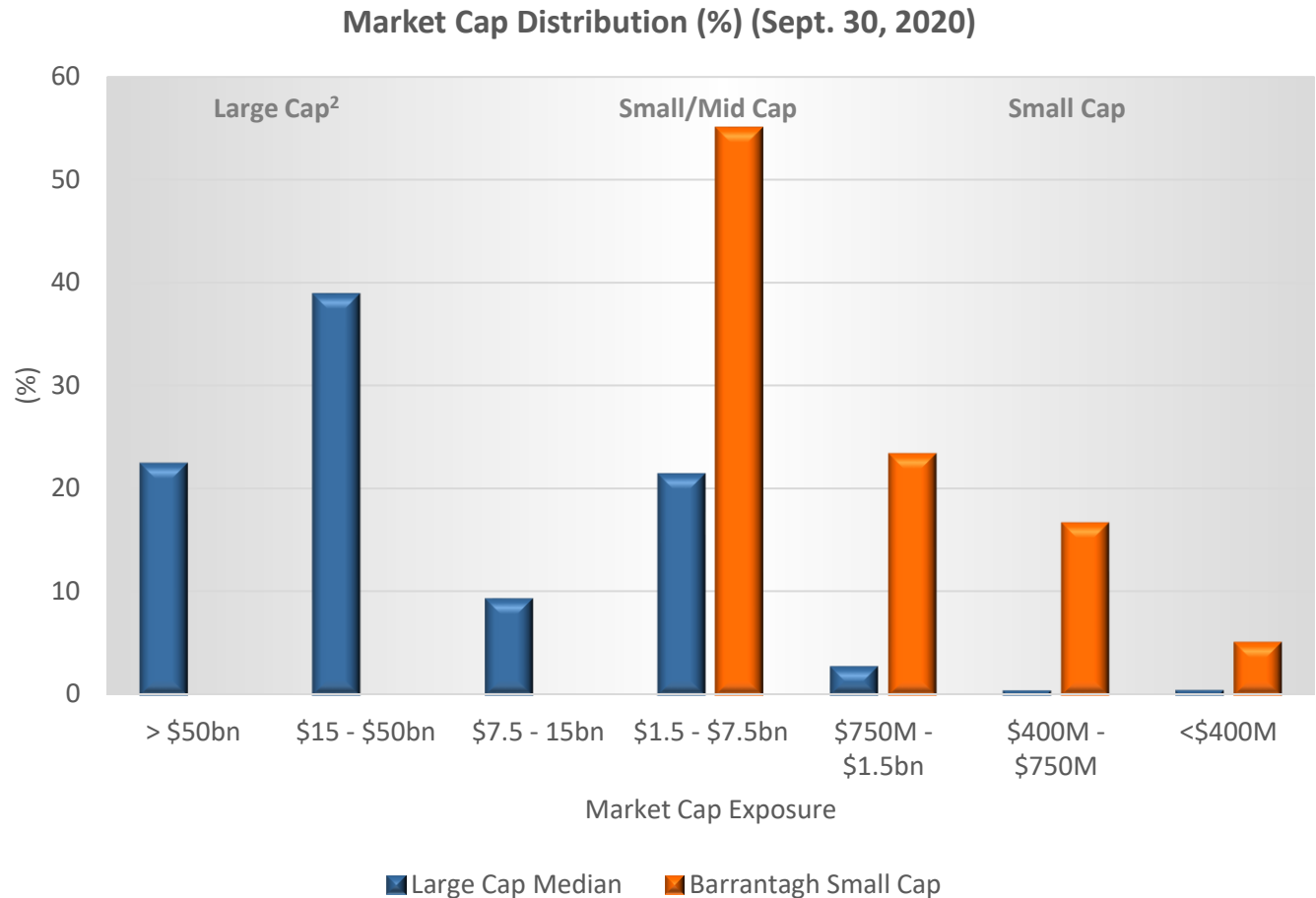
<sup>1</sup> Study universe includes all members of the TSX Composite & TSX Small Cap Indices with 5 & 10-year track records

<sup>2</sup> Returns are for periods ending Aug. 31, 2018

# Small Cap Canadian Equities

## Large Cap Managers Ignore Small Cap Opportunities

Small Cap & Large Cap universes are mutually exclusive – Large Cap managers don't own below \$1.5bn. Overlap exists in the Small/Mid bucket - \$1.5bn - \$7.5bn.



<sup>1</sup> Large Cap Median = Evestment Large Cap Canadian Universe

<sup>2</sup> Market Cap buckets as defined by Evestment



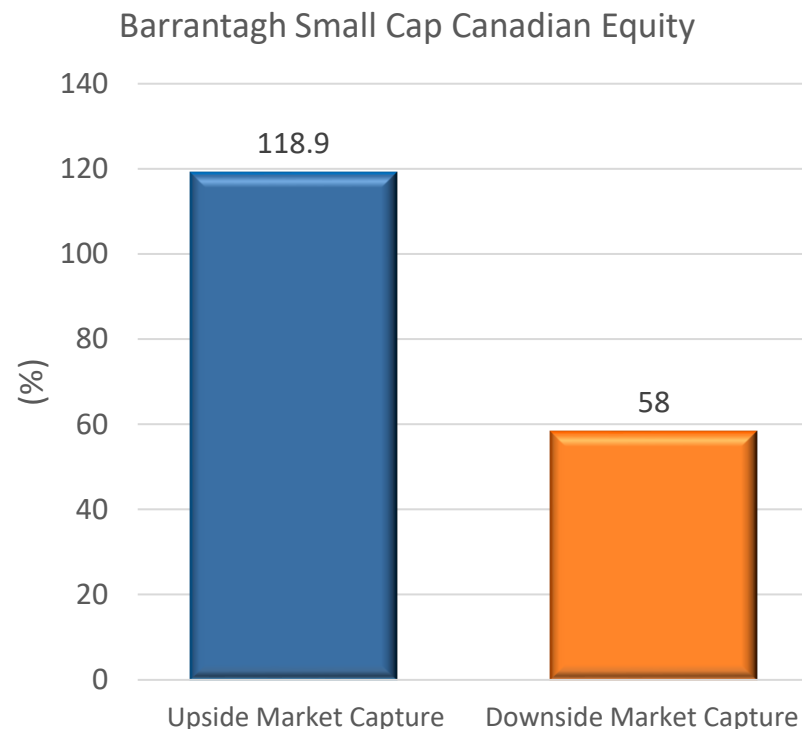
## OBSERVATIONS:

Diversification with  
Small Cap Canadian Equities

# Small Cap Canadian Equities

Risk Statistics vs. *Small Cap* Canadian Equity (for Periods Ending September 30, 2020)

	Barrantagh Small Cap Cdn. Equites <sup>1</sup>	Percentile Rank <sup>2</sup>	
<b>Annualized Return</b>	<b>12.4</b>	<b>1</b>	<b>1<sup>st</sup> Percentile</b>
Standard Deviation	13.8	1	Lower Volatility than Median
<i>Sharpe Ratio</i>	.82	1	<i>Highest risk-adjusted return</i>
Beta	0.53	1	Very Low risk vs. market
<i>Treynor Ratio</i>	21.18	1	<i>Highest risk-adjusted return</i>



<sup>1</sup> Since Inception Jan. 1, 2008

<sup>2</sup> vs. Evestment Small Cap Universe

# Creating Minimum Risk (Optimal) Portfolios

## Combining Barrantagh Small Cap with Cdn Large Cap Managers

### Canadian Equity Allocation

Since Inception (Jan./08) Risk Return  
For Periods Ending Sept. 30 2020



Most large-cap Cdn. Equity managers are **highly correlated (>0.9)** – with each other and the index

Barrantagh small cap offers **very low correlation with large cap (0.6)** and indices

- Allocation can *reduce overall portfolio risk + increase return*

#### Total Portfolio Risk a function of:

1. Weights ( $\omega$ ) of underlying components
2. Risk ( $\sigma$ ) of underlying components
3. Correlation ( $\rho$ ) of components

$$\text{Portfolio Standard Deviation}(\sigma_p) = \sqrt{\omega_A^2 \sigma_A^2 + \omega_B^2 \sigma_B^2 + 2\omega_A \omega_B \sigma_A \sigma_B \cdot \rho_{AB}}$$



# DIVERSIFICATION: Small Cap Canadian Equities

## Perspective on Allocation to Small Cap

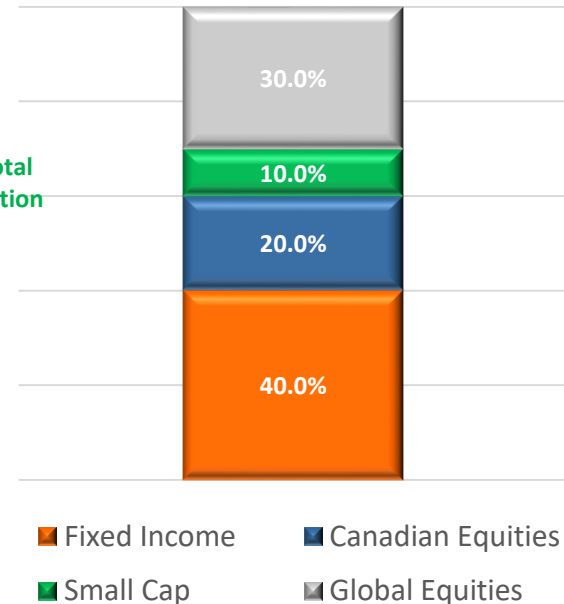
Incremental addition of small cap shows optimal (minimum risk) allocations of 20% - 50% which would suggest 5% - 15% of a typical 60% equity/40% fixed client portfolio

### Canadian Equity Allocation

Since Inception (Jan./08) Risk Return  
For Periods Ending Sept. 30 2020

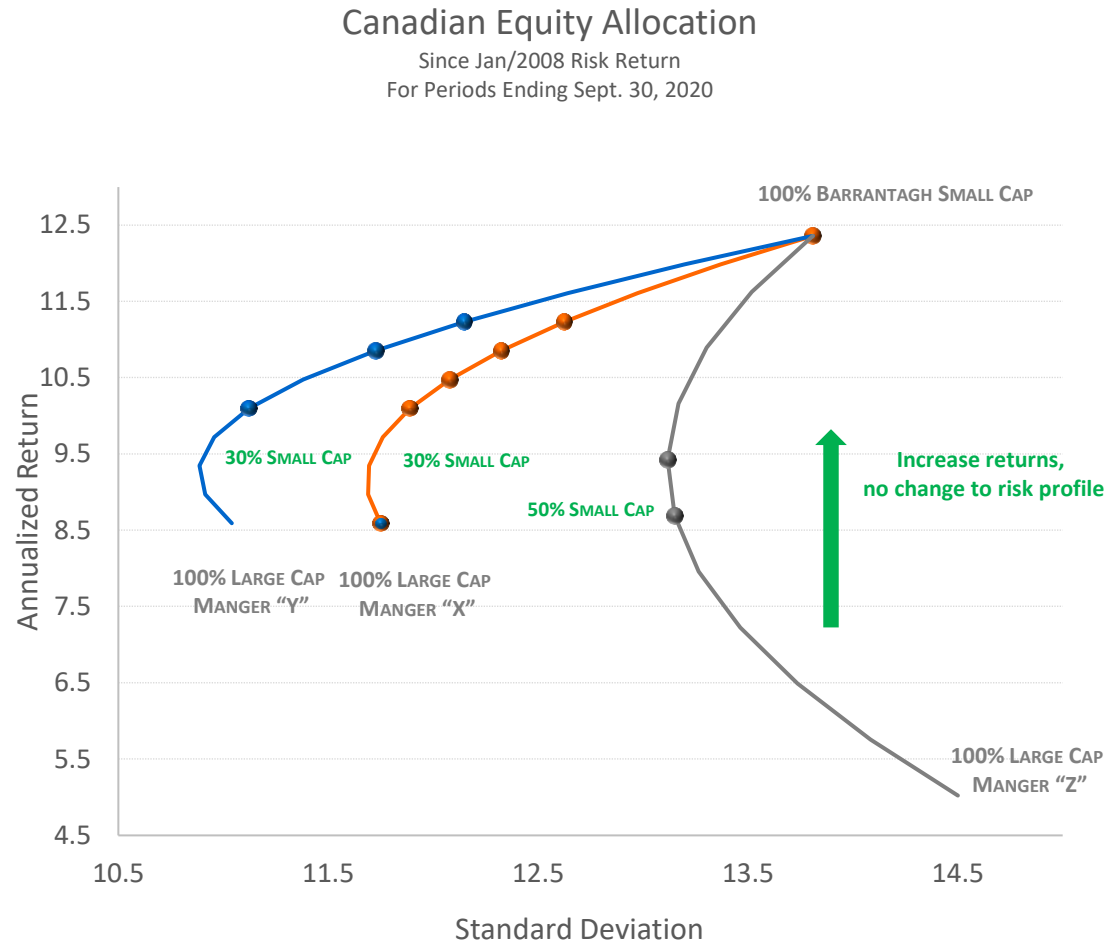


### "Typical" Client Asset Mix



# DIVERSIFICATION: Small Cap Canadian Equities

Results are Similar with Other Large Cap Managers





## SMALL CAP CANADIAN EQUITIES

# Small Cap Canadian Equity Mandate

Performance at September 30, 2020

For Periods Ending Sept. 30, 2020	YTD	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	6 Yrs	7 Yrs	8 Yrs	9 Yrs	10 Yrs
<b>BIM Canadian Small Cap</b>	<b>7.9%</b>	<b>14.3%</b>	<b>5.5%</b>	<b>7.7%</b>	<b>6.0%</b>	<b>9.4%</b>	<b>6.3%</b>	<b>9.0%</b>	<b>10.2%</b>	<b>12.8%</b>	<b>13.0%</b>
S&P/TSX Small Cap Index	-8.6%	-2.9%	-4.8%	-3.2%	-2.2%	4.5%	-0.5%	1.5%	1.2%	1.7%	0.8%
S&P/TSX Composite Index	-3.1%	-0.0%	3.5%	4.3%	5.5%	7.2%	4.4%	6.5%	6.6%	6.9%	5.8%

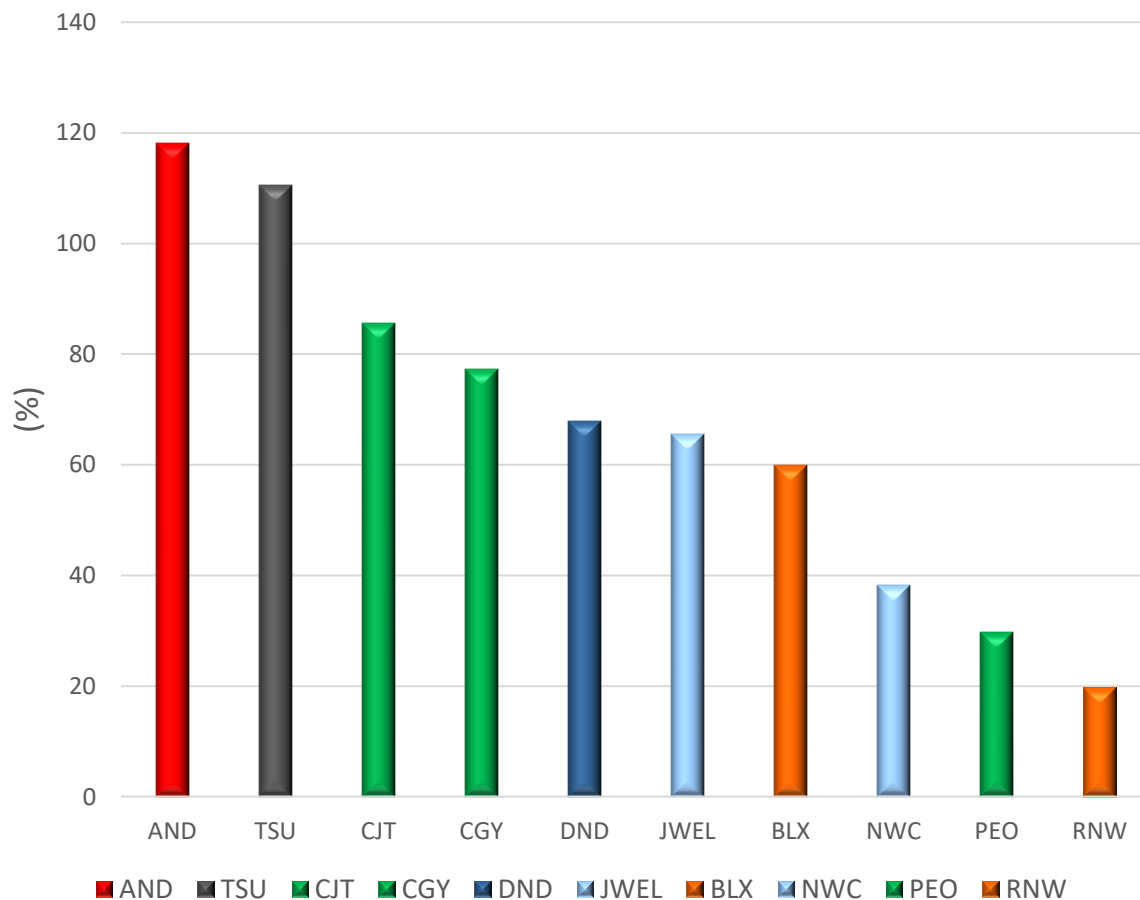
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>BIM Canadian Small Cap Equity</b>	<b>19.0%</b>	<b>-8.9%</b>	<b>5.9%</b>	<b>19.8%</b>	<b>-5.3%</b>	<b>17.3%</b>	<b>30.9%</b>	<b>18.5%</b>	<b>15.6%</b>	<b>35.0%</b>	<b>43.8%</b>	<b>-22.9%</b>
S&P/TSX Small Cap Index	15.8%	-18.2%	2.7%	38.5%	-13.4%	-2.4%	7.6%	-2.2%	-16.4%	35.1%	62.3%	-45.5%

Green indicates periods that Barrantagh Small Cap outperformed

# TSX Small Cap Canadian Equity

## Contributions by Sector to Total Index Return

Top 10 Stock Contributors: 2020 YTD Return



### Top 10 - Broad Alpha sources:

- Industrials (3)
- Utilities (2)
- Staples (2)
- Technology (1)
- Health Care (1)
- Financials (1)

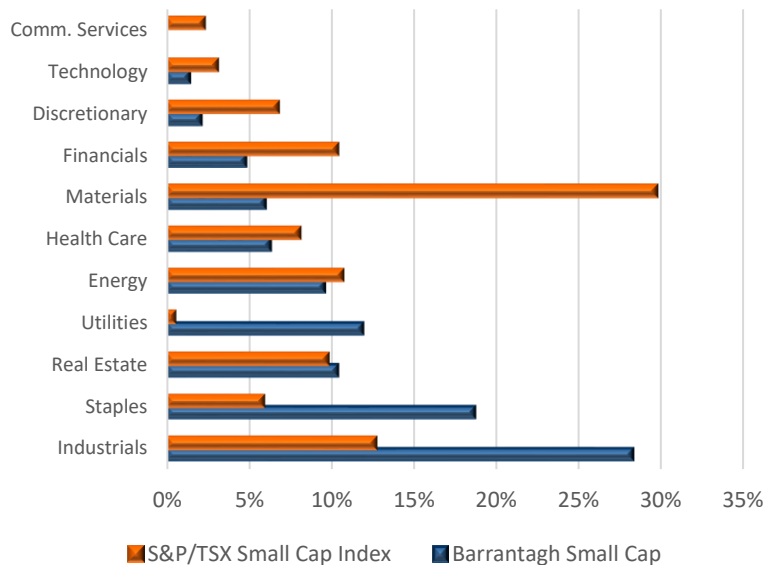
# Profile: Small Cap Canadian Equities

Portfolio at September 30, 2020

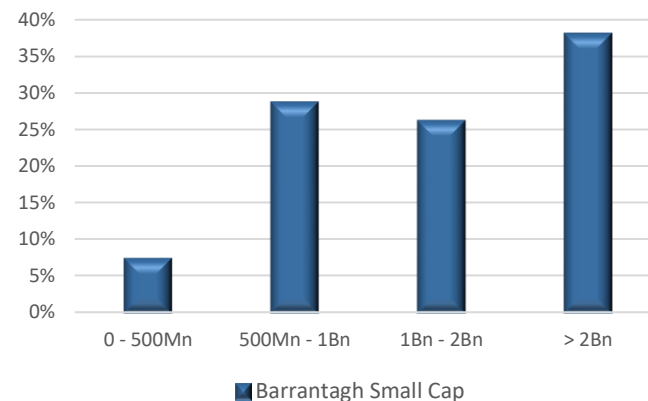
## CHARACTERISTICS

Number of Holdings	26
Avg. Market Cap	\$1.93 Bn
# Industry Sectors	10
Dividend Yield	2.5%

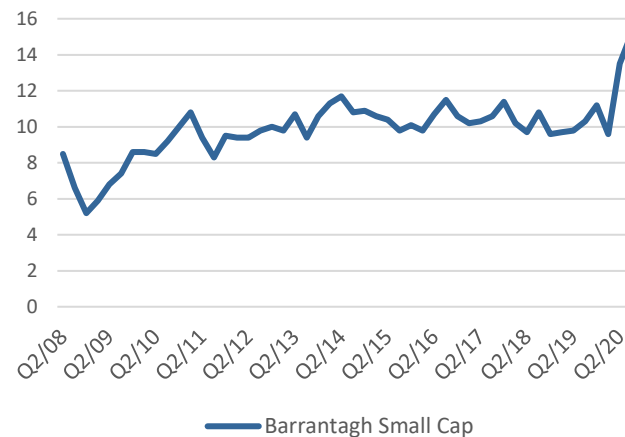
## Barrantagh Small Cap Industry Weight vs. Index



## Market Cap Exposure



## Historic P/CF



# Canadian Small Cap Equity Portfolio

Portfolio at September 30, 2020 | 2020 Transactions

	Portfolio Weight		Portfolio Weight	
<b>Consumer Discretionary</b>		<b>Industrials</b>		<b>SOLD</b>
Diversified Royal	2.1%	Aecon Group	2.8%	<b>CES Solutions</b>
	2.1%	Badger Daylighting (+)	3.8%	<b>TORC</b>
<b>Consumer Staples</b>		Boyd Group	4.9%	<b>Wajax</b>
Primo Water (+)	4.6%	Cargojet (-)	6.1%	
Jamieson Wellness	5.5%	Calian Group (NEW)	3.7%	
North West Co.	4.5%	People Corp. (NEW)	2.6%	
Premium Brands	3.7%	Morneau Shepell	3.7%	<b>TRIM = (-)</b>
	18.3%		27.6%	<b>ADD = (+)</b>
<b>Energy</b>		<b>Real Estate</b>		
Gibson Energy (+)	3.6%	Minto Apartment REIT (+)	3.4%	
Parkland Fuel	2.9%	Storagevault Canada	3.6%	
Tidewater Midstream (+)	2.7%	Summit Industrial REIT (NEW)	3.1%	
	9.2%		10.1%	
<b>Financials</b>		<b>Utilities</b>		
Trisura Group	4.7%	Boralex (-)	4.6%	
	4.7%	Superior Plus	3.8%	
<b>Health Care</b>		Transalta Renewables (NEW)	3.2%	
Andlauer Healthcare (-)	6.1%		11.6%	
	6.1%	<b>Materials</b>		
<b>Information Technology</b>		Altius Minerals	2.2%	
Dye & Durham (NEW)	1.4%	Intertape Polymer (+)	3.6%	
	1.4%		5.8%	
		Cash & Equivalent	3.1%	
		Total	100.0%	

# Canadian Small Cap Equity Portfolio

## Select Holdings – Brand Recognition

### JAMIESON WELLNESS (JWEL)



### CARGOJET (CJT)



Amazon optional  
ownership stake ~15%



### BORALEX (BLX)



### AECON (AEC)



### PARKLAND FUEL (PKI)



### BADGER DAYLIGHTING (BAD)







## CANADIAN EQUITIES INCOME

# Canadian Equity Income Mandate

Performance at September 30, 2020

For Periods Ending Sept. 30, 2020	YTD	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	6 Yrs	7 Yrs	8 Yrs	9 Yrs	10 Yrs
<b>BIM Canadian Equity Income*</b>	<b>-13.2%</b>	<b>-10.0%</b>	<b>-2.0%</b>	<b>0.5%</b>	<b>1.5%</b>	<b>4.0%</b>	<b>1.5%</b>	<b>4.9%</b>	<b>5.8%</b>	<b>7.3%</b>	<b>7.5%</b>
S&P/TSX High Dividend Index	-18.5%	-15.2%	-3.3%	-1.8%	1.1%	4.2%	0.4%	2.8%	3.8%	4.7%	4.3%
S&P/TSX Composite	-3.1%	0.0%	3.5%	4.3%	5.5%	7.2%	4.4%	6.5%	6.6%	6.9%	5.8%

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>BIM Canadian Equity Income*</b>	<b>24.4%</b>	<b>-9.6%</b>	<b>5.0%</b>	<b>16.4%</b>	<b>-7.8%</b>	<b>15.1%</b>	<b>20.7%</b>	<b>11.5%</b>	<b>12.7%</b>	<b>16.3%</b>	<b>33.3%</b>
S&P/TSX High Dividend Index	25.8%	-10.8%	7.6%	28.4%	-14.6%	5.2%	16.1%	7.6%	1.5%	13.7%	31.1%
S&P/TSX Composite	22.9%	-8.9%	9.1%	21.1%	-8.3%	10.6%	13.0%	7.2%	-8.7%	17.6%	35.1%

- Canadian Equity Income annualized returns for periods longer than eight years are an ex-cash carve out of our long-term balanced income composite.

# Canadian Equity Income Mandate

## Why Have Dividend-Payers Lagged the Broader Market this Year?

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
S&P/TSX High Dividend Index	25.8%	-10.8%	7.6%	28.4%	-14.6%	5.2%	16.1%	7.6%	1.5%	13.7%
S&P/TSX Composite	22.9%	-8.9%	9.1%	21.1%	-8.3%	10.6%	13.0%	7.2%	-8.7%	17.6%

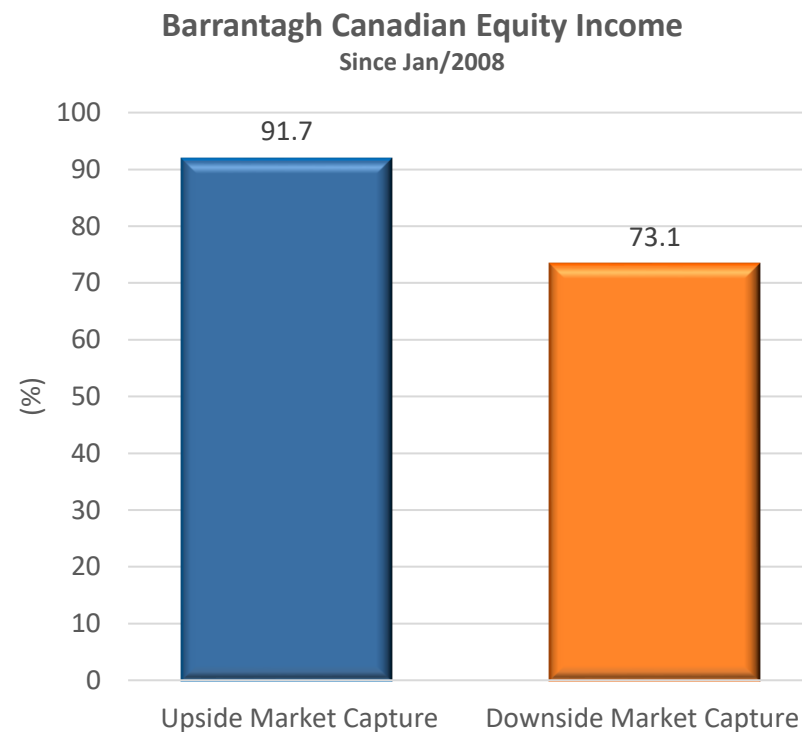
	2020	Weight	
	YTD Return	TSX	TSX High
	TSX	Composite	Dividend
	Composite		
<b>Discretionary</b>	-3.7%		
<b>Staples</b>	10.5%		
Energy	-36.0%		
Financials	-12.8%		
Health Care	-43.3%		
Industrials	9.3%		
<b>Technology</b>	67.9%	10.3%	0.0%
<b>Materials</b>	25.9%	15.5%	4.9%
Real Estate	-16.2%		
Comm. Services	-6.8%		
Utilities	9.4%		

- Last 10 calendar years high dividend beat TSX 5/10 years – an even split.
- 2020 YTD is the largest deviation (by a lot) and is driven by very strong performance in the Technology & Materials (gold/mining) sectors up 67.9% & 25.9% YTD respectively (ie a “narrow” market).
- Tech & gold miners are low or no yield stocks % a large part of the broader TSX Composite (>25%). Given their low/no yield profile they are only ~5% of the TSX High Dividend which therefor did not benefit from the high returns in tech/mining.
- if you exclude tech/gold from the TSX composite its return would be similar to the High Dividend.
- Currently Tech stocks are trading at very high valuations & gold stocks are inherently volatile and cyclical. Any mean reversion on these 2 sectors will reverse the current deviation.

# Canadian Equities Income

Risk Statistics vs. Canadian Equity (for Periods Ending September 30, 2020)

	Barrantagh Cdn. Equities Income <sup>1</sup>	Percentile Rank <sup>2</sup>	
<b>Annualized Return</b>	<b>6.6</b>	<b>16</b>	<b>1<sup>st</sup> Quartile</b>
Standard Deviation	12.6	8	Low Volatility
<i>Sharpe Ratio</i>	<i>0.4</i>	<i>7</i>	<i>High Risk-adjusted return</i>
Beta	0.82	12	Low Market Risk
<i>Treynor Ratio</i>	<i>6.72</i>	<i>16</i>	<i>High Risk-adjusted return</i>



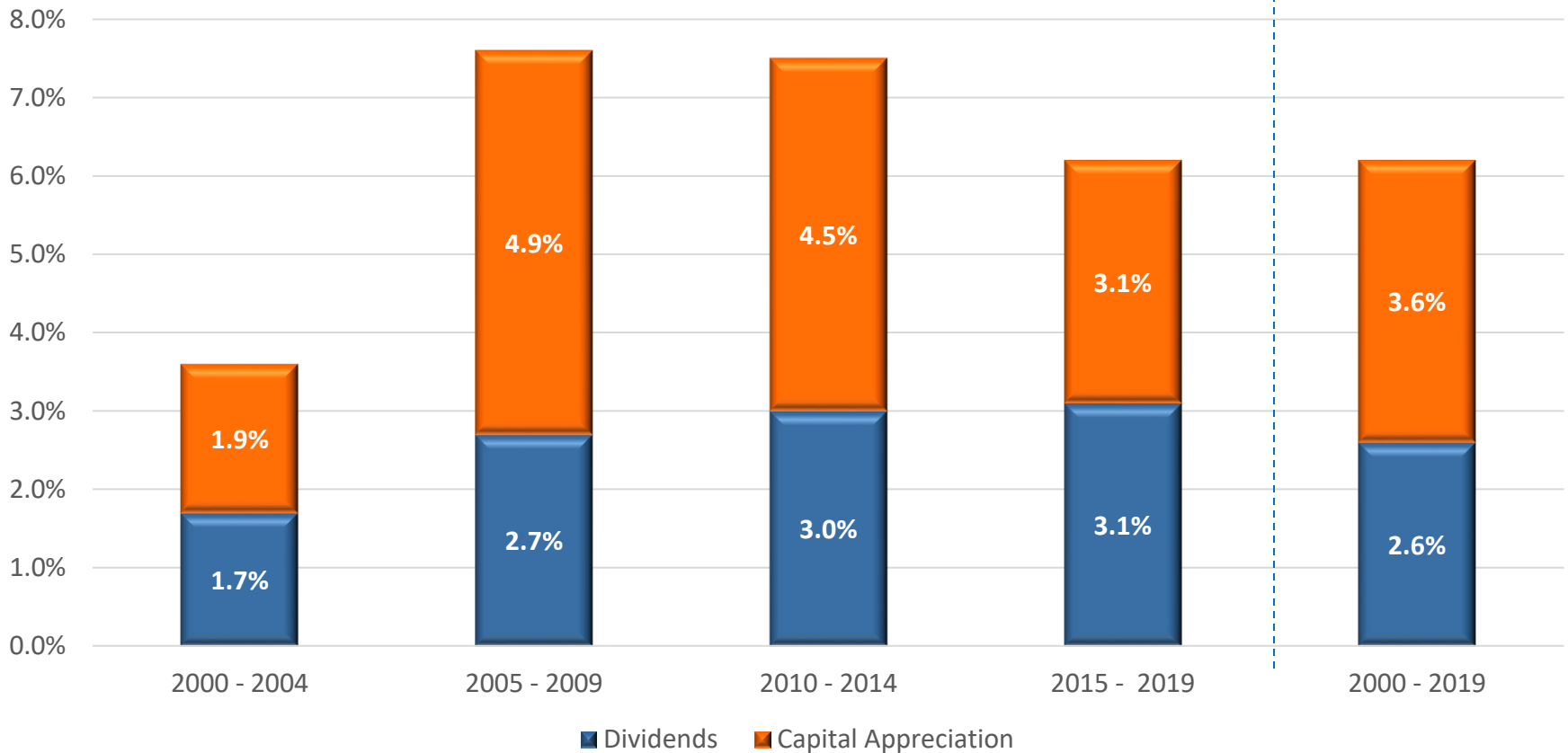
<sup>1</sup> Since Jan./2008

<sup>2</sup> Versus Evestment Pure Canadian Equity Universe

# Canadian Equity Market

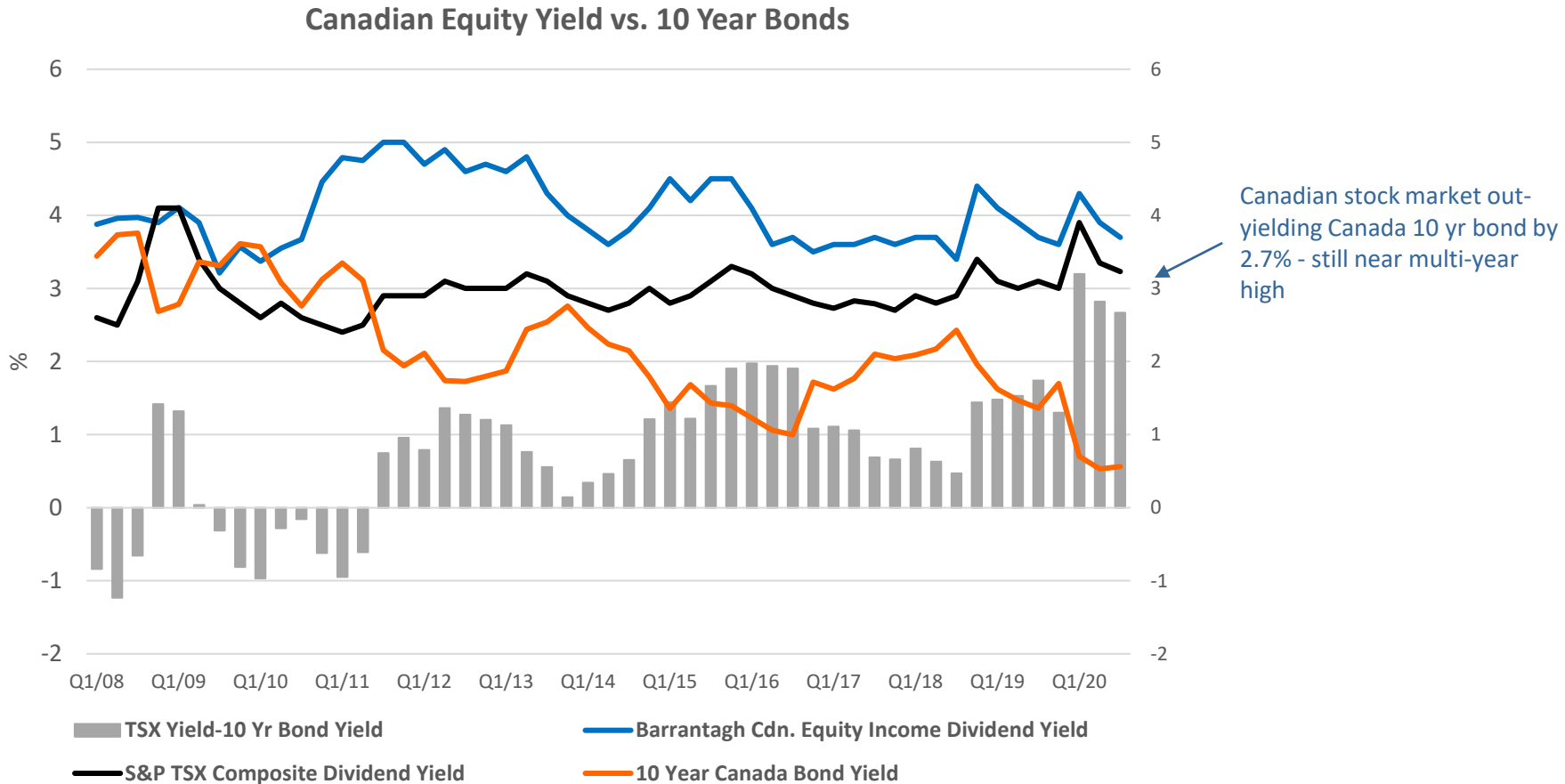
## Dividend Income Matters!

### S&P TSX Composite: Dividend Income a Substantial Part of Total Return



# Canadian Equity Market

## Equities Yields are Attractive vs. Bonds



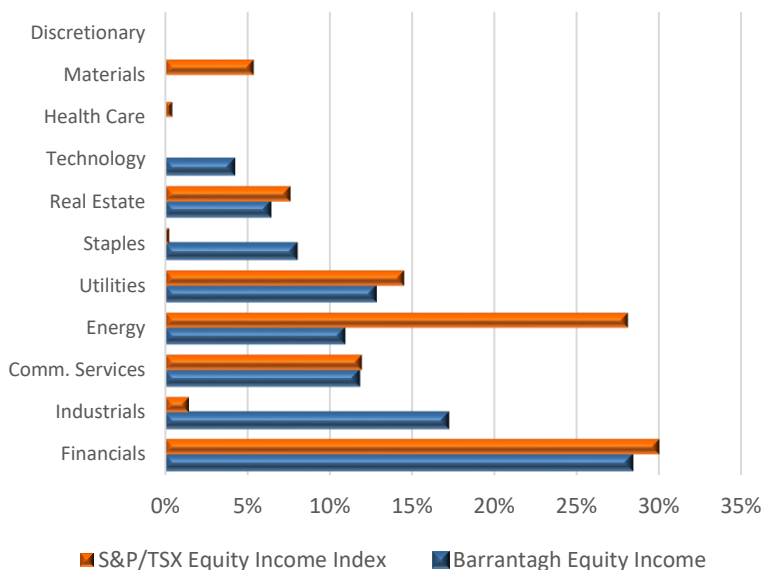
# Profile: Canadian Equities Income

## Portfolio at September 30, 2020

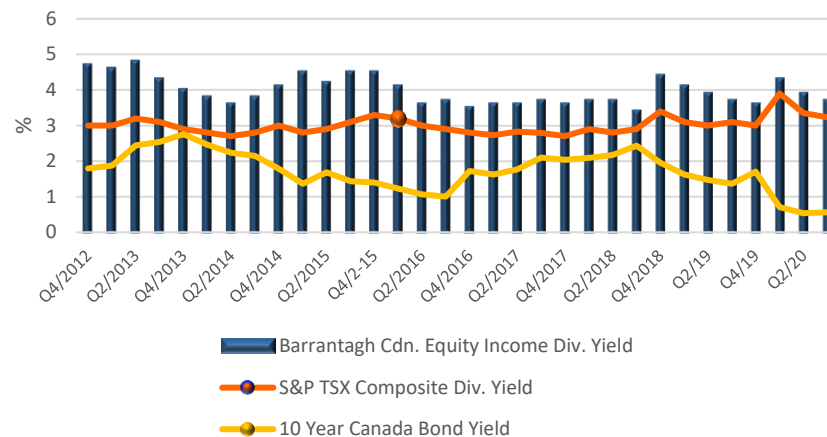
### CHARACTERISTICS

Number of Holdings	25
Avg. Market Cap	\$31.2Bn
# Industry Sectors	8
Dividend Yield	3.7%
P/CF	8.5X

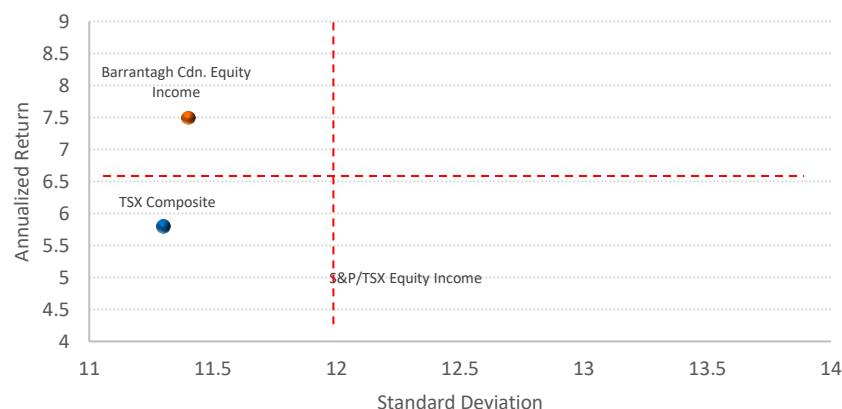
### Barrantagh Equity Income Industry Weight vs. Index



### Quarterly Dividend Yield History



### 10 Year Risk – Return Ending Sept. 30, 2020 Vs. Evestment Pure Cdn. Equity Universe



# Canadian Equity Income Portfolio

Portfolio at September 30, 2020 | Q3 Transactions

	Portfolio Weight		Portfolio Weight	
<b>Consumer Staples</b>		<b>Industrials</b>		
Premium Brands	4.2%	Boyd Group	3.5%	
Primo Water	3.8%	Morneau Shepell	3.1%	
	8.0%	Stantec	2.5%	
<b>Energy</b>		Toromont Industries	4.3%	
Gibson Energy	3.1%	WSP Global	3.5%	
Parkland Fuel	3.4%		16.9%	
TC Energy	4.2%	<b>Financials</b>		
	10.8%	Bank of Nova Scotia	4.9%	TRIM = (-)
<b>Communication Services</b>		Industrial Alliance	3.1%	ADD = (+)
Telus	6.3%	Intact Financial (+)	3.0%	
Rogers Communications	5.3%	Royal Bank of Canada (-)	6.9%	
	11.6%	Sun Life Financial	3.2%	
<b>Information Technology</b>		TD Bank (-)	6.8%	
Opentext	4.1%		27.9%	
	4.1%	<b>Utilities</b>		
<b>Real Estate</b>		Brookfield Infrastructure	3.6%	
Granite REIT	4.5%	Superior Plus	4.1%	
Canadian Apartment REIT	1.9%	Fortis (NEW)	2.0%	
	6.4%	Altogas (NEW)	2.9%	
			12.6%	
		Cash & Equivalents	1.7%	
		Total	100.0%	





## ECONOMICS

# Outlook

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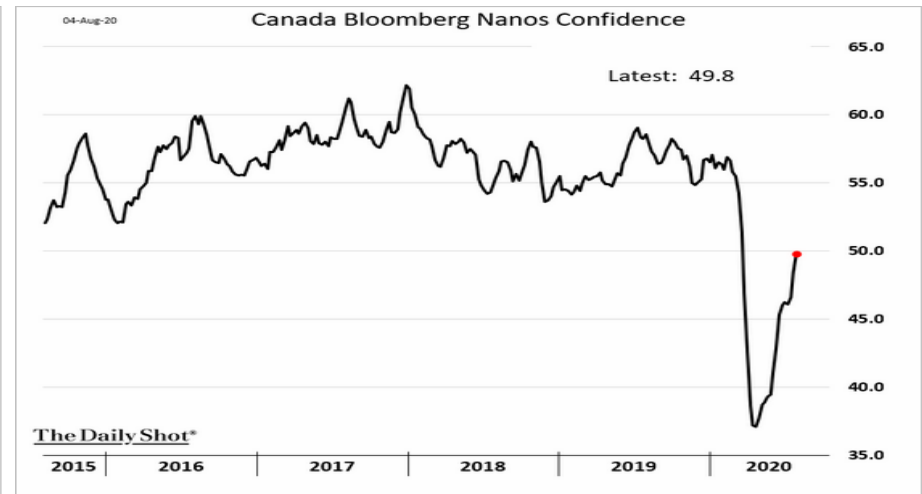
## World:

- Response has been quick
- Rate cuts, fiscal stimulus, monetary support, credit supports, regulatory burden relief
- Fiscal policy response expected to add 1.3% to global GDP
- U.S. Example – fiscal policy between \$850bn to \$1.2tn
  - The U.S. response is about 5% of current GDP
  - In 2008 the response was \$830bn or 6% of GDP

## Canada:

- Announced \$82bn response package or 3% of GDP

# Canadian Manufacturing PMI & Confidence

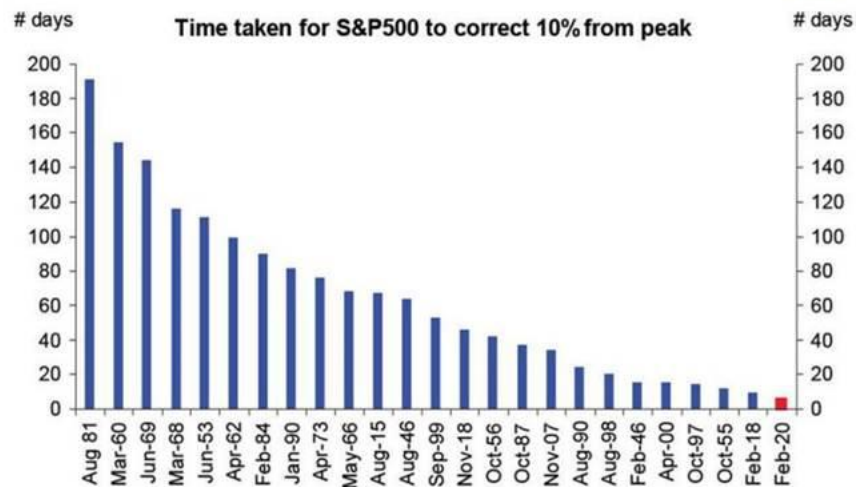


Source: The Daily Shot

# Coronavirus Impact

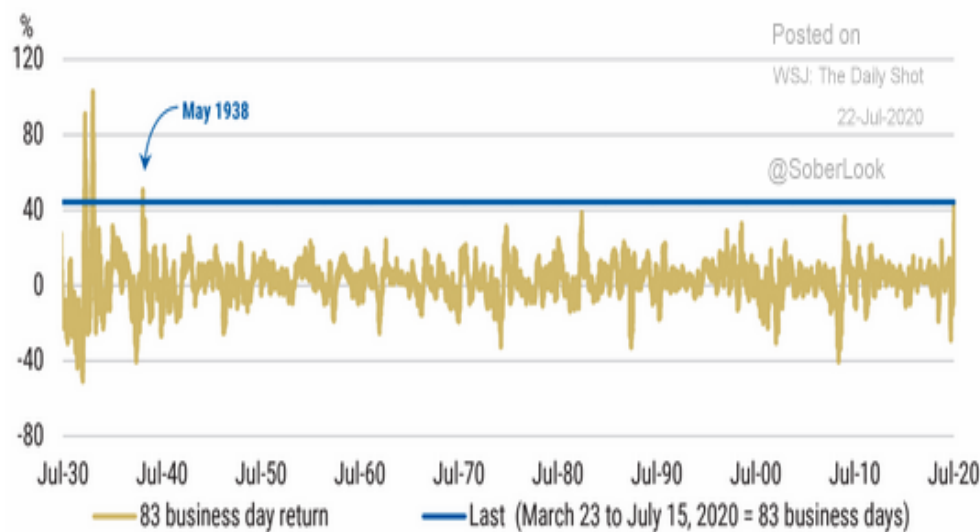
## Rapid Correction & Recovery

6 days: Fastest correction in the S&P500 on record



Source: Deutsche Bank Research, Bloomberg

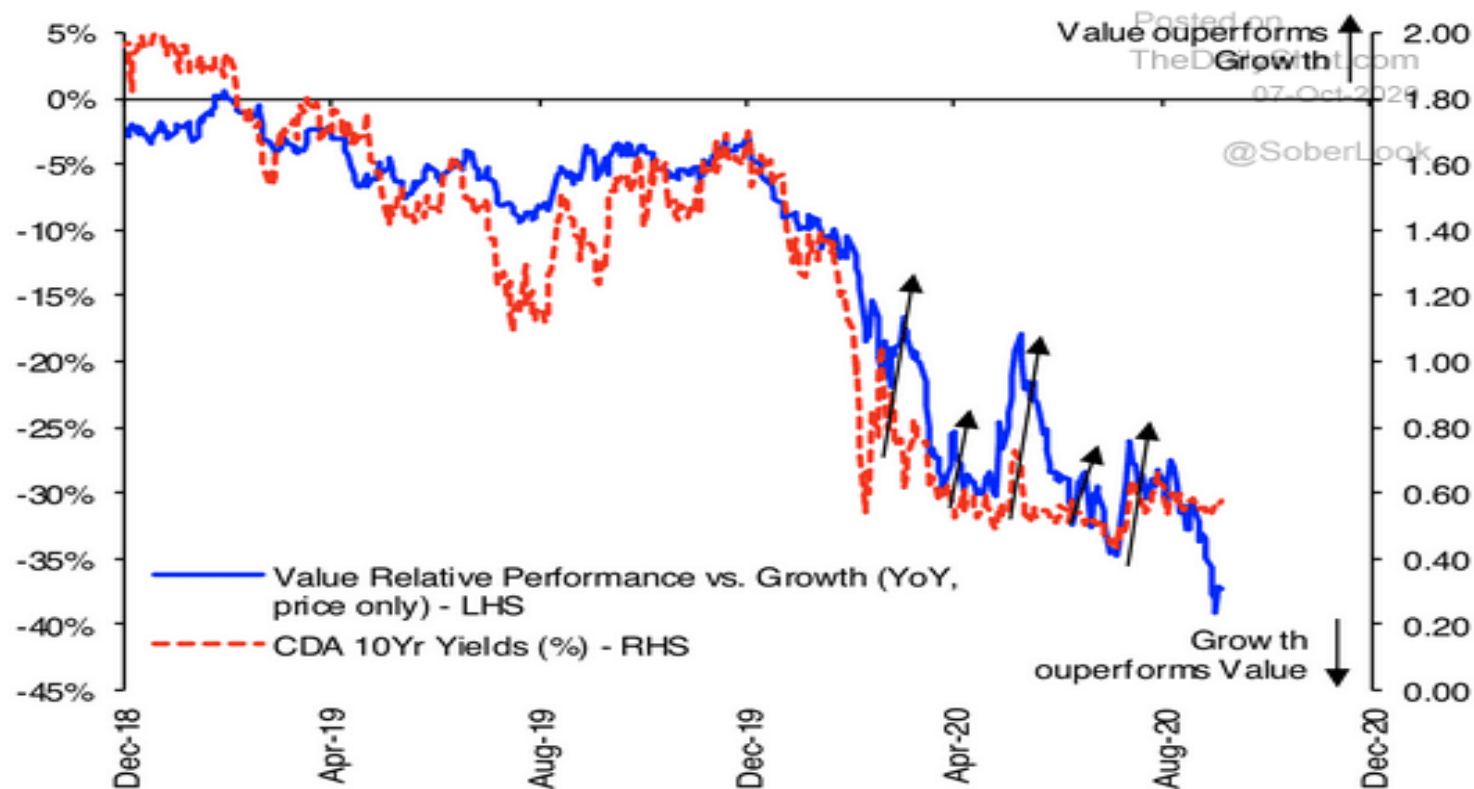
**S&P 500 Price Return Over Every 83 Business Day Period Since July 1930**



Source: WSJ, Morgan Stanley, Bloomberg

# Canadian Value vs Growth vs Yield

MSCI Canada Value vs. Growth & CDA 10Yr Yields



Source: The Daily Shot, Scotiabank, Bloomberg

# Working with You

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- Why Small Cap Canadian Equities
  1. Adds **low-risk alpha** & yield to client portfolios
  2. Diversification - **reduce** overall client portfolio **risk** (low correlation)
  3. Exploit the opportunity in small cap stocks (**limited sell-side coverage**)
- Barrantagh Small Cap Canadian Equity Fund (F Class)
  - **Fund Code: BMI105**, 1.0% MER
- SMA Min. Investment Small Cap: \$50,000, Large Cap Income: \$75,000
- Advisor Portal (barrantagh.com) Password: BMO1

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