Q4 2020

TRADING ACTIVITY

BARRANTAGH INVESTMENT MANAGEMENT

Total Equities

The risk-off tone entering the quarter quickly abated alongside two major global developments: Joe Biden's victory in the U.S. presidential election and strong results on the efficacy of COVID vaccine alternatives. This translated in a large move higher in risk markets with those most punished in a COVID-lockdown world seeing the most benefit (mean reversion). This large rotation to "losers" from "winners" saw the more cyclical areas of energy, commodities, industrials, discretionary, and financials leading the market higher, while smaller cap stocks outperformed larger cap names (typical "risk on" market behaviour). Closing out the year, the finalization of Brexit and approval of renewed U.S. fiscal stimulus has provided equity markets with further clarity and has investors focused on the economic light at the end of the tunnel that should follow more broad-based vaccine deployment.

Given the hardship and human suffering we are happy to have 2020 in the books. That said the portfolio delivered excellent returns on both an absolute and relative basis. We continue to be excited for the prospects coming out the other side of the lockdowns and getting back to synchronized global recovery and growth. Given the strong fourth quarter, markets are looking through any near-term stumbles and focusing firmly on a post-COVID world; however, we are still seeing areas of unrecognized value. We look to hold a balanced portfolio of names either poised to benefit from an outsized return-to-normalcy earnings acceleration or names that will continue thriving in a post-pandemic environment just as they did in 2020.

BUYS

Jamieson Wellness

Jamieson is a leading provider of vitamins and supplements in Canada with a long-standing trusted brand. We believe the company has a significant opportunity to leverage its health and wellness products in international markets, like China. Additionally, the consumer trends towards healthy living and wellness will endure well beyond the pandemic and we took advantage of the weakness in the stock after it sold off ~20% following the vaccine news.

Savaria

Savaria is a low-cost provider of accessibility solutions (such as stairlifts and elevators) in the U.S., Canada and Europe. We believe the company should see some demand tailwinds coming out of the pandemic particularly as more seniors look to remain at home for longer. The company has effectively no debt on the balance sheet, which provides optionality for accretive acquisitions.

TMX Group

TMX owns and operates a leading portfolio of equity and derivative exchanges in Canada. We believe that capital markets activity will accelerate in Canada, which will benefit TMX. The company also has a strong balance sheet and can make accretive acquisitions.

Terminix

A leading provider of residential and commercial pest control services located mainly in the US. Terminix has divested two other businesses over the past few years and is now focused solely on the pest control market. The industry typically exhibits consistent growth regardless of economic cyclicality, recurring revenues, and high margins. The divestitures allow them to close the gap vs their direct competitor Rollins (Orkin brand) when it comes to revenue growth and margin opportunity as they execute on their operational improvement program. Furthermore, the industry remains fragmented which provides Terminix the ability to accelerate growth by acquisitions. Lastly, the business is very cash generative, and provides scope for share buybacks and acquisitions.

Metso Outotec

A Finnish company formed in 2020 through the merger of Metso Minerals and Outotec and is one of the few end-to-end minerals processing equipment and service providers to mining companies globally. The combination will result in significant cost synergies and new growth opportunities as they combine their strengths to offer more comprehensive solutions and optimize customer workflows. This is particularly good timing as mining companies are in the early stages of establishing long term emission targets which will require greater assistance from Metso Outotec who is a leader in ESG for this industry. Furthermore, the stock currently trades at an attractive valuation, particularly in light of the strong recovery in metal prices over the past several months.

Kubota

A Japanese machinery company focused on the manufacturing and servicing of farm, lawn care, construction, and water infrastructure equipment with significant exposure to the Asian region. Company is well positioned to benefit from the long-term trend of mechanization and automation in farming where Asian markets remain in the early stages. Operating margins have significant potential for improvement over the coming years due to new product introductions and a greater focus on operational improvement. Furthermore, Covid-19 challenges impacted demand and manufacturing efficiency last year, which becomes an easy comparison this year. The stock is attractively valued, particularly when factoring in the meaningful opportunity for margin improvement and revenue growth.

RWE AG

RWE AG is a German electric utility with a large renewable presence in Germany, U.K., the U.S. and various other European countries. Prior to this year, they were burdened with legacy coal and nuclear generation capacity which was looking more out of step with the greener direction of the EU and the world in general. This all changed when they executed a major asset swap with E.ON that was finalized earlier this year. This transaction transformed RWE into a global leader in renewable energy supply in offshore/onshore wind, solar, hydropower, biomass, natural gas, and storage. Their green transformation is further accelerated by a financial agreement with the German government to gradually phase out coal between now and 2038. The transformation also means that RWE will invest heavily into renewable generation in the coming years, with clear near-term project commissioning targets and an ability to take advantage of any new projects that come to market down the road. These investments are expected to drive an acceleration in earnings growth longer term, and result in a growing percentage of their revenue coming from renewable sources (RWE plans to be carbon neutral by 2040). This potential is currently not reflected in their valuation.

SELLS

These positions were funded through the sale of Leidos Holdings, Allegion and Philips, WSP Global and Enbridge.

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