BARRANTAGH Investment Management | 1995 | 2020 25 Years

Q1 2021

TRADING ACTIVITY

BARRANTAGH INVESTMENT MANAGEMENT

Canadian Small Cap Equities

The cyclical rotation that began in November with the U.S. presidential election and promising vaccine news accelerated into 2021 driving global equity markets higher. Energy and financials were among the strongest performing sectors while technology and other pandemic "winners" lagged or sold off. Fiscal stimulus remains largely in place to aid healing economies, and unprecedented government transfers through the crisis have left consumers in outstanding financial condition to act on pent-up demand. These dynamics are driving inflation expectations higher and central banks continue to be highly accommodative, signalling their willingness to let things "run hot" and avoid tapping the breaks too early. This environment has proved highly positive for risk assets, while inflicting deep pain to rates and the bond market.

As we have now passed the one-year anniversary of the initial COVID-19 market plunge, Q1/21 provides a great example of end-point sensitivity and the potential folly of focusing on short-term numbers. Trailing 12-month returns for Canadian Equity benchmarks range from +40% to +100%. In general, those names and sectors that got hurt the worst during fear-gripped March 2020 have rallied the strongest over the last year. In a euphoric rally like this, the Fund will almost certainly trail the commodity-heavy TSX-SC benchmark, but this only tells half of the story. Downside protection during severe market selloffs is a key lever to drive longer-term outperformance. Stepping back to encompass both the sell-off and rally, the Fund sits well above both the benchmark and broader S&P/TSX Composite.

It was exactly one year ago where we highlighted (1) the best future investment returns materialize after large drawdowns; and (2) though small-cap stocks often lag in the sell-off, they rebound stronger in the recovery as risk appetite improves. This played out as predicted and with a speed and magnitude that would have surprised even the most unwavering optimist. The portfolio performed admirably, weathering the depths of the sell-off and then rallying strongly. Our small-cap exposure combined with our Quality-Value ethos provided some level of downside protection with solid torque to the risk-on recovery. This has played out similarly in previous market inflections (2008-2009; 2015-2016 come to mind) and has been a good recipe for driving superior long-term risk-adjusted returns. The world now looks quite different today with expectations for a robust global economic recovery well understood but many equity markets making new all-time highs. We'll stay focused on what we can control – finding quality cash-generative businesses trading at reasonable valuations and set up to compound returns for equity holders.

BUYS

Equitable Group (EQB)
Equitable Group is an emerging Canadian challenger bank with strong mortgage market fundamentals, improving earnings quality and an attractive valuation and upside.

Enerflex (EFX) -
Enerflex is a globally diversified natural gas processing equipment provider. A strong demand for natural gas as a key component in the energy transition with EFX earnings underpinned by more stable rental and service revenue. Substantial torque to oil and gas activity pick-up and deeply discounted valuation.

ARC Resources (ARX)
ARC is the largest pure-play liquids-rich Montney natural gas developer. It has a favourable commodity backdrop, tier 1 assets and a strong relative ESG profile, along with an attractive valuation and dividend yield.

Mullen Group (MTL)
Mullen Group is a trucking and logistics provider with a focus on Western Canada and natural resources. It is tied to Canadian economic growth out of the pandemic with a kicker on increasing oilfield activity. It has an attractive valuation and expectation for near-term dividend increase from lowered pandemic level.

MTY Group (MTY)
MTY Group is a multi-banner restaurant operator. Diversified by geography (60% U.S), brand (80 banners) and concept (70% QSR, 12% Fast Casual, 8% casual dining). It has an attractive valuation given strong earnings and cash flow reopening profile.

SELLS

Northwest (NWC) – Sold
Northwest delivered good returns in the period of time we owned it. The valuation moved up and is now facing challenging pandemic boosted earnings comps/growth.

Parkland (PKI) – Sold
Parkland's market cap moved up to "mid cap" after solid longer-term returns. We opted to sell to make room for upstream energy exposure (ARX, EFX and to lesser degree MTL).

People Corp (PEO) – Sold
People Corp was acquired by Goldman Sachs Merchant banking for an all cash offer ~80% above purchase price.

FOR MORE INFORMANTION PLEASE CONTACT:

Barrantagh Investment Management
100 Yonge Street, Suite 1700
Toronto, ON, Canada M5C 2W1

Alan Daxner, CFA
Senior Vice President
416.864.7958
adaxner@barrantagh.com

Robin Ferguson
Vice President
778.990.3445
rferguson@barrantagh.com