Q2 2021

TRADING ACTIVITY

BARRANTAGH INVESTMENT MANAGEMENT

Canadian Equities Income

The second quarter brought a return to more "normal" market conditions after the manic drops and euphoric rallies of recent periods. In general, risk assets performed well in conjunction with strong economic growth and increasing demand/earnings expectations. There was some "noise" under the hood with some reflation/rotation winners on pause mid quarter and technology stocks rallying (coinciding with the recent peak in the US 10-year) but the broader equity rally that commenced last March continued largely unabated.

Over recent periods Canadian equities and small caps specifically have put up strong returns. A big driver is the resurgence of the energy sector, given its importance to the Canadian economy, as oil prices have rallied from the COVID-onset troughs to WTI at multi-year highs of ~US$75/bbl exiting the period. In 2021, energy is the top performing sector across Canadian equities with the respective component of the TSX Composite +37%, TSX Mid Cap +52% and TSX Small Cap +82%. Given this large rise and its prominence in the resource-heavy S&P/TSX Small Cap index, small cap energy stocks have accounted for ~50% of the year-to-date returns and account for the entirety of the portfolio's relative year-to-date shortfall to the benchmark. In a rapidly rising commodity tide that lifts all boats (even the low-quality names) it can be hard to keep pace in the short term given our investment philosophy, but we continue to be constructive on the sector near-term, while picking our spots and navigating the longer-term structural headwinds.

As world economies collectively exit pandemic mode (at varying speeds) pent up demand is driving a surge of economic growth, supply chain constraints and higher inflation – this is now well understood by markets. To what extent this has peaked, or when, and what "normal" growth looks like as we mature in the business cycle is now the key consideration. We remain in the camp that we are in a healthy environment for stocks and though pockets of the market look more fully valued, businesses that can demonstrate strong cash flow growth and exceed expectations should perform quite well.

BUYS

Chemtrade Logistics (CHE-U)

Chemtrade Logistics is a North American producer of industrial chemicals. The firm's management team changed recently resulting in the new CEO being more operationally focused. This was a key catalyst to re-engage with the company. We believe this company is well positioned moving forward given the supportive commodity backdrop and a strong outlook for earnings recovery. In addition, the attractive valuation, given legacy struggles, provide a margin of safety and opportunity for outsized returns in the future.

Neighbourly Pharmacy (NBLY)

Neighbourly Pharmacy is a national consolidator of independent pharmacies that came to market in an initial public offering (IPO). This business shared similarities to other opportunities that have proven a successful recipe for value creation in the past, specifically:

- Attractive and stable organic tailwinds – aging demographics, increasing scope of services, and resilient demand.
- Fragmented market with sizable and accretive M&A opportunity – NBLY is third largest pharmacy group in Canada with only ~1% market share and competing in a differentiated pool (rural/clinical) than its largest competitors.
- Capable management team, strong balance sheet and reasonable valuation – non-promotional and experienced management team with conservative debt profile and priced at an attractive "small cap" discount to peers and our assessment of intrinsic value.

SELLS

None.

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