

# **BARRANTAGH**

Investment Management

## Update – June 30, 2021

- Firm Update
- Small Cap Canadian Equities
  - Observations
  - Diversification
  - Mandate Review
- Economic Update



**A+ Program**



## FIRM UPDATE

# Firm Update

## FIRM PROFILE

- 100% employee-owned investment managers since 1995
- 17 employees, firm ownership expanded to 7 employee-shareholders
- AUM: \$1.3 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

### 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, 13-year composite track-record
  - ‘A’ Class – 2.0% MER launched in Q2/2021
- Mid Cap – reached 4-year track record end of Q2/21

### ESG Integration Update:

- Completed UN PRI signatory process (2019) & formalized BIM Responsible Investing Policy
- 2021 – subscribed to ISS ESG Global database (ESG company data, Controversies, Portfolio Analysis)

### Sub-Advisory News:

- Awarded new SMA mandate (Global Equities) continuing to broaden our offerings with 5 leading IIROC firms

### Website Upgrade 2020:

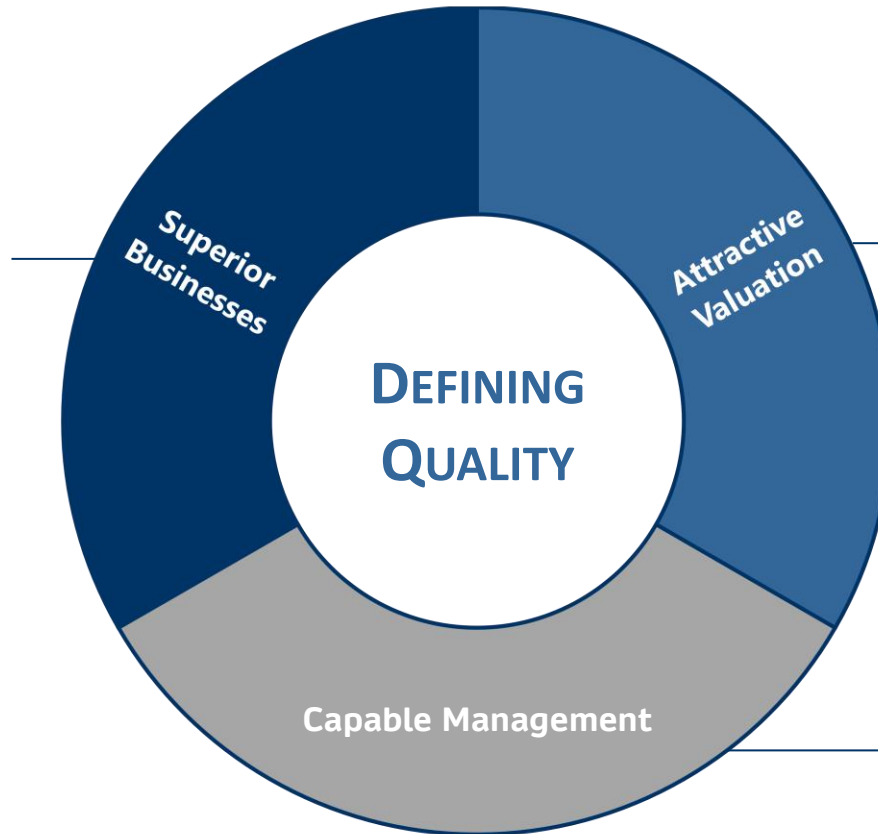
- Launched July, 2020
- Advisor Portal

# 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

Performance at June 30, 2021

For Periods Ending Jun 30, 2021	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>13.0%</b>	<b>42.2%</b>	<b>20.2%</b>	14.7%	12.1%	11.5%	9.9%	8.5%	11.7%	12.8%	13.4%
S&P/TSX Small Cap Index	19.8%	57.7%	19.1%	9.2%	8.2%	7.3%	7.7%	3.9%	7.4%	6.5%	3.5%
S&P/TSX Composite Index	17.3%	33.8%	14.4%	10.8%	10.7%	10.8%	8.9%	7.4%	9.8%	9.6%	7.4%

	1 Yr Jun 30	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>BIM Canadian Small Cap</b>	<b>42.2%<sup>1</sup></b>	<b>21.3%</b>	<b>19.0%</b>	<b>-8.9%</b>	<b>5.9%</b>	<b>19.8%<sup>1</sup></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%<sup>1</sup></b>	<b>-22.9%</b>
S&P/TSX Small Cap Index	57.7%	12.9%	15.8%	-18.2%	2.7%	38.5%	-13.4%	-2.4%	7.6%	-2.2%	-16.4%	35.1%	62.3%	-45.5%

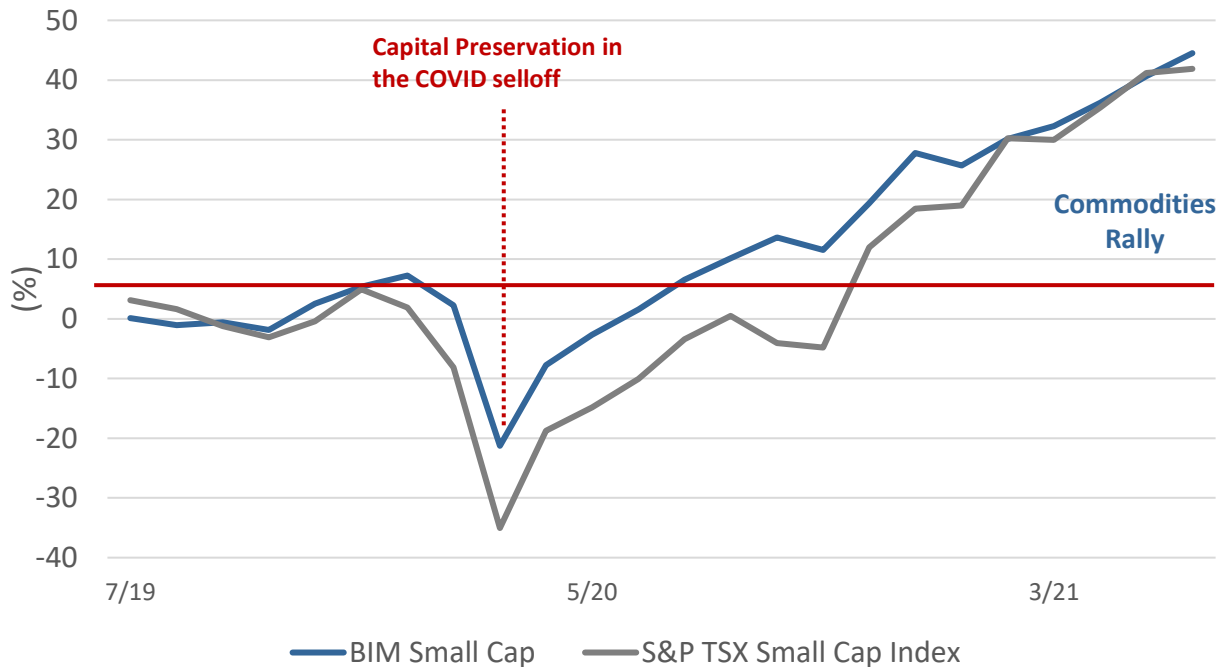
<sup>1</sup> Periods where index performance was driven by commodity rallies (Mining & Oil Exploration & Production)  
Green indicates periods that Barrantagh Small Cap outperformed

Returns are gross of fees. Composites include actual accounts managed by Barrantagh. Past performance is no guarantee of future returns.

# Small Cap Canadian Equity

## Returns: Down Market Protection Trumps the Beta Rally

Last 2 Years: BIM Small Cap vs. TSX Small Cap

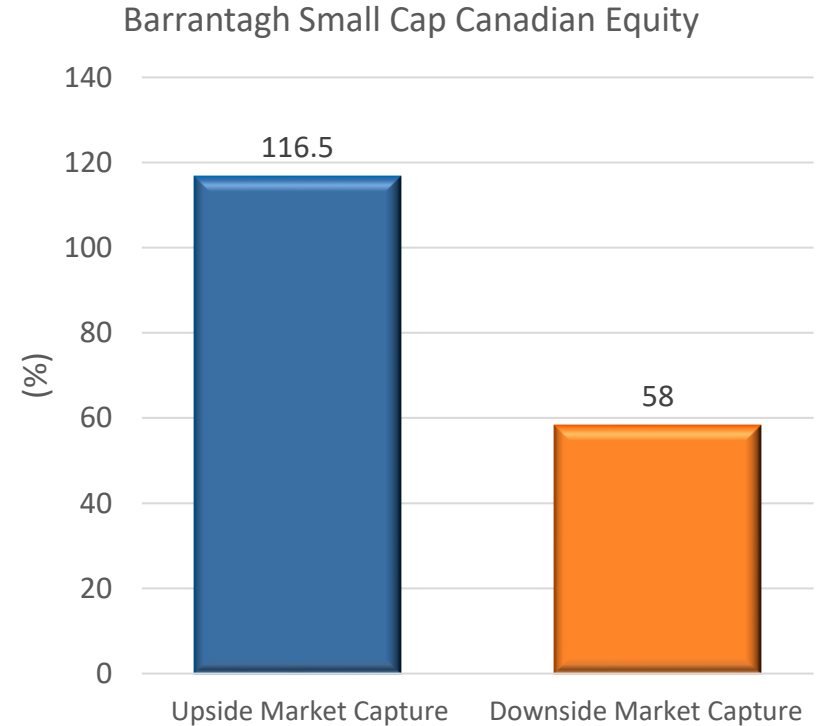


- Outperformance in the COVID selloff has outweighed the recent shortfall on the commodity rally
- Including the market sell off & recovery the strategy has returned +20.2% over the last 2 yrs vs. the TSX small cap index at +19.1% annualized

# Small Cap Canadian Equities

Conservative Exposure to Commodities Delivers Much Lower Portfolio Risk vs. Market

	Barrantagh Small Cap Cdn. Equites <sup>1</sup>	TSX Small Cap	Median
<b>Annualized Return</b>	<b>13.6</b>	<b>3.7%</b>	<b>9.2%</b>
Standard Deviation	13.7	21.4%	18.1%
<i>Sharpe Ratio</i>	<i>0.92</i>	<i>0.12</i>	<i>0.46</i>



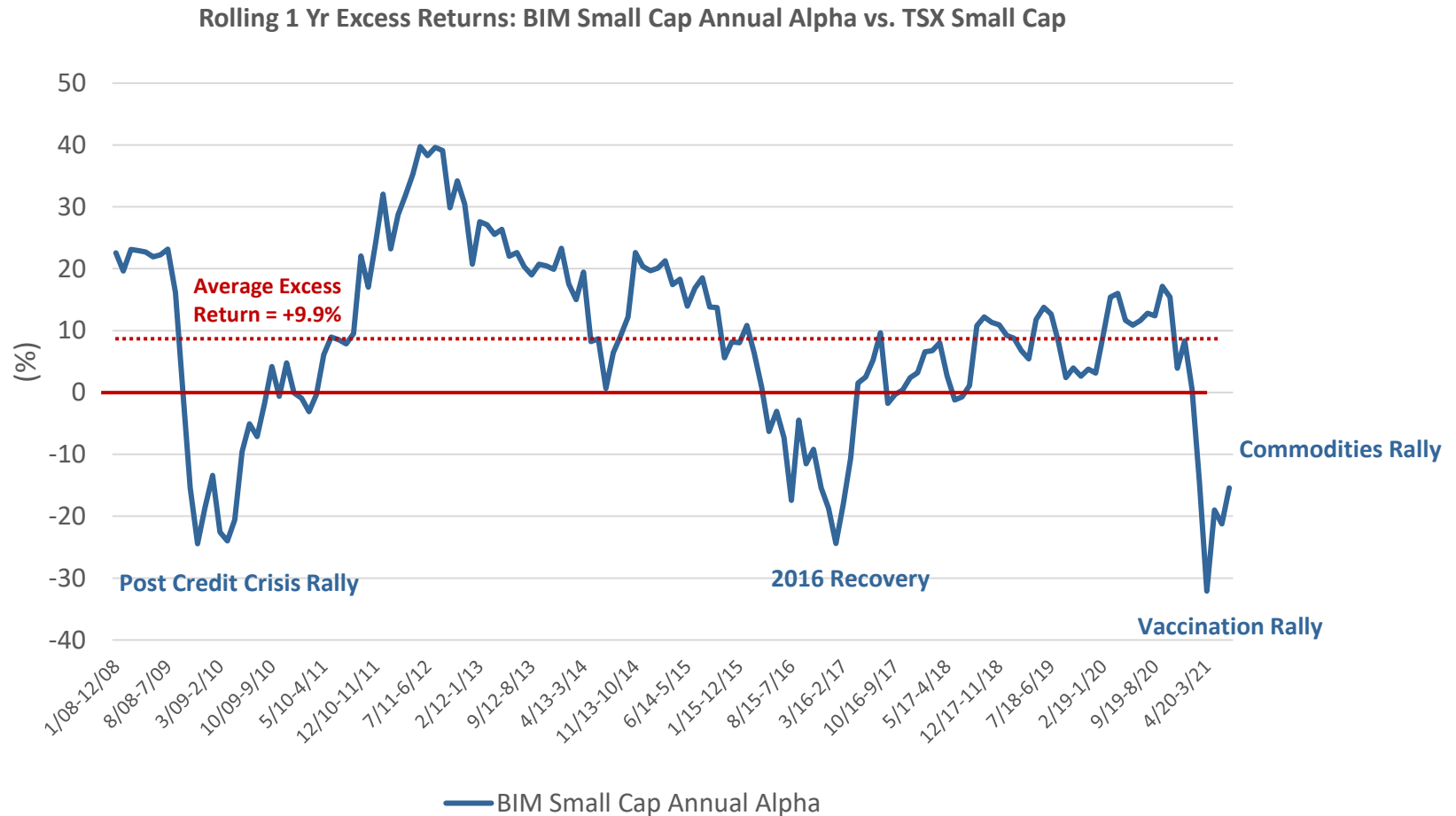
<sup>1</sup> Since Inception Jan. 1, 2008

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



# Small Cap Canadian Equity

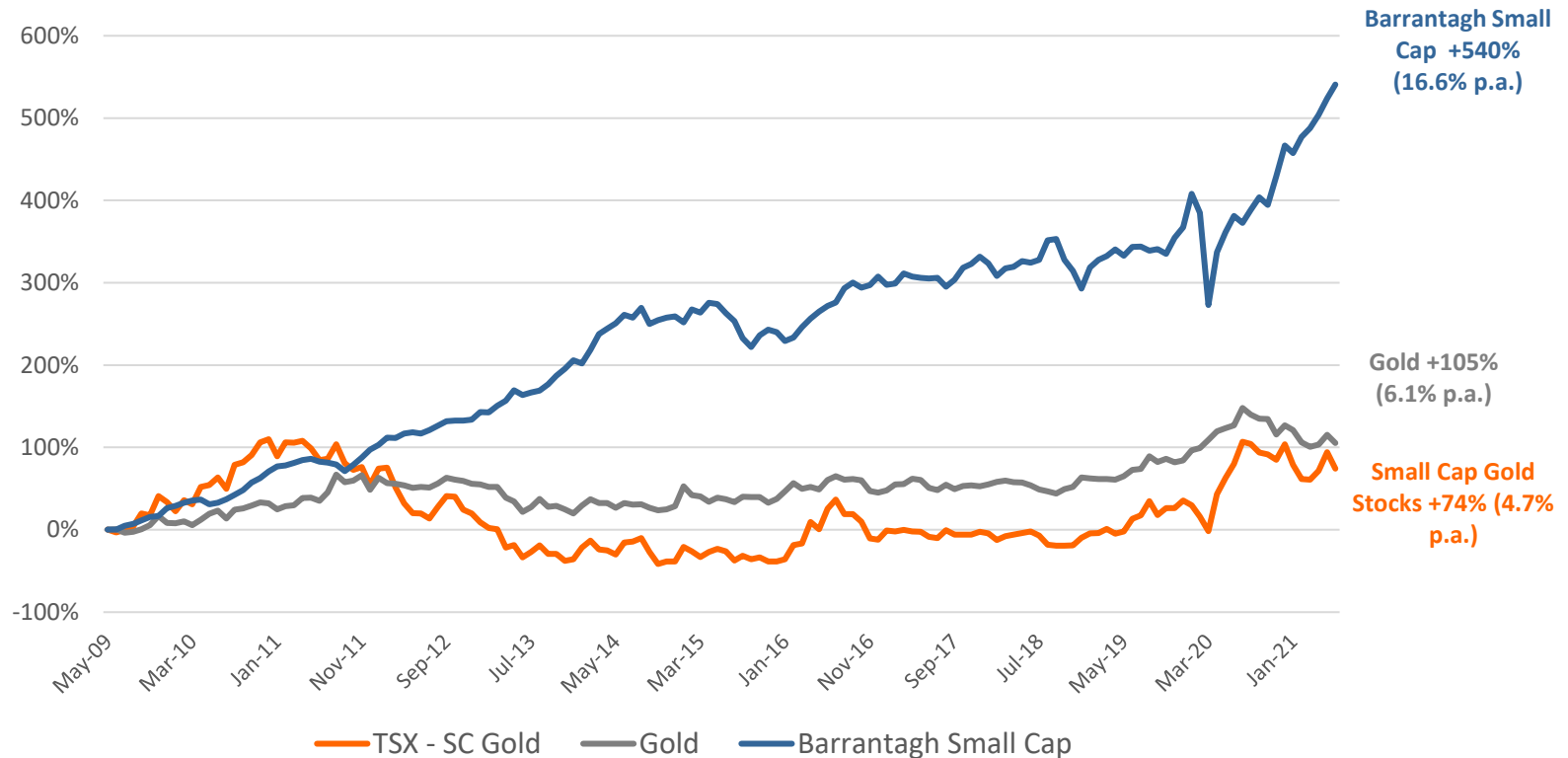
Excess Returns: Substantial Commodity Rallies are Infrequent & Short-Lived



# Small Cap Canadian Equity Mandate

## Junior Gold Miners: Underperforming/Volatile & Poor Commodity Tracking

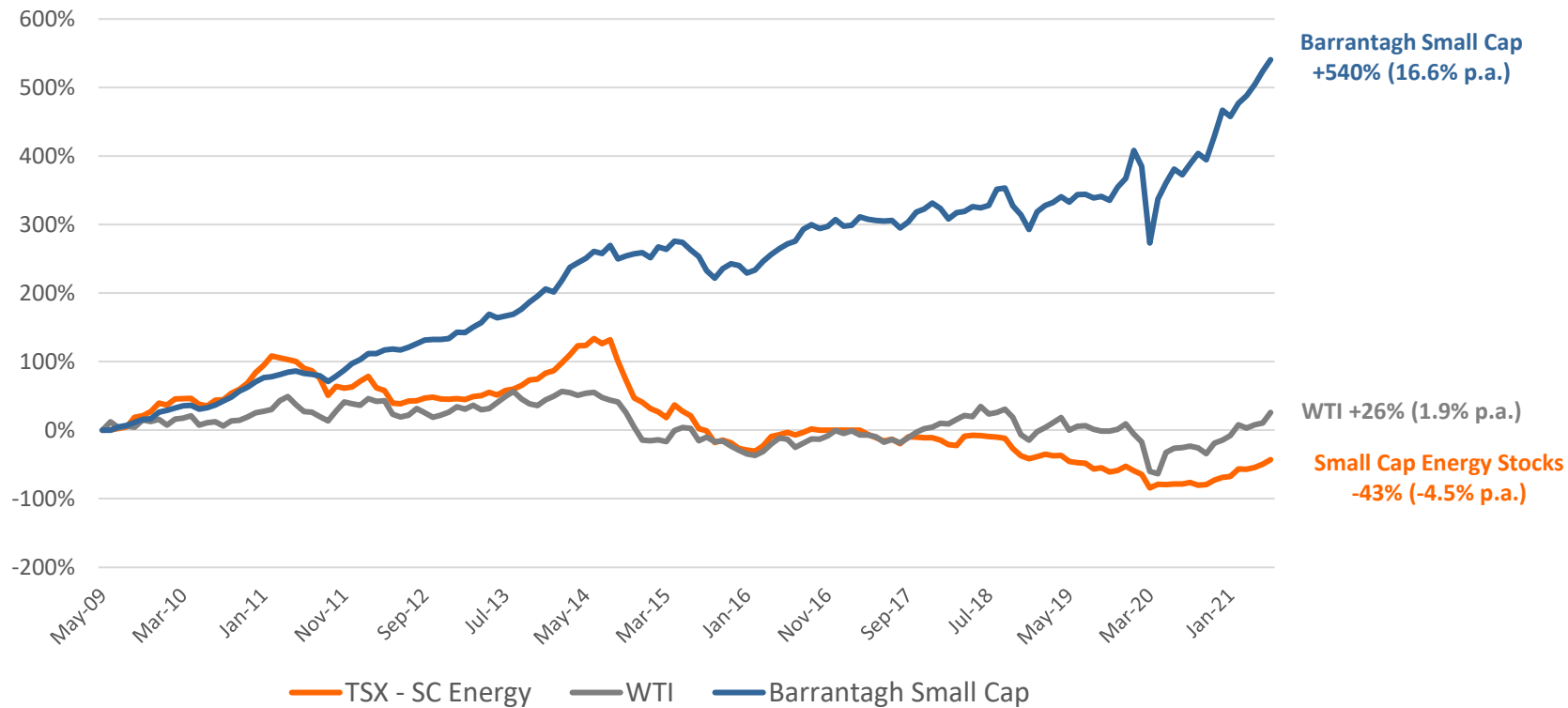
### Cumulative Returns ~ 12 Years to June 30 2021



# Small Cap Canadian Equity Mandate

## Small Cap Energy: Underperforming/Volatile & Poor Commodity Tracking

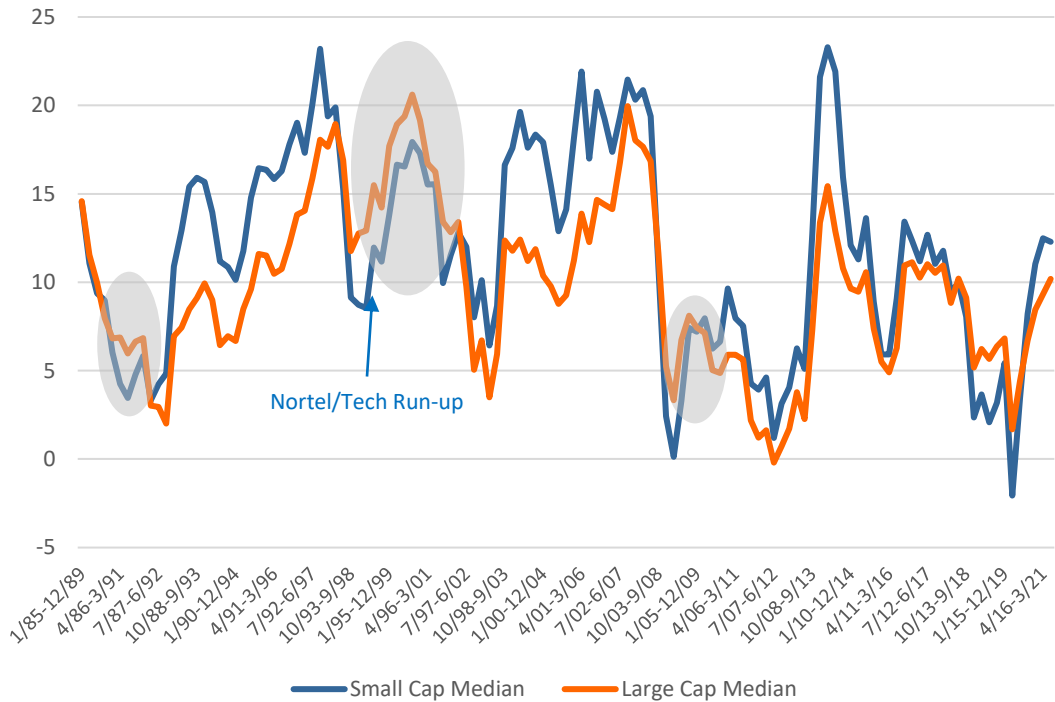
### Cumulative Returns ~ 12 Years to June 30 2021



# Canadian Equity Markets

## Small Cap Median Beats the Large Cap Median 70% of the time Since 1985

Rolling 5 Year Annualized Performance



- 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%

← **5 year medians at June 30/2021:**

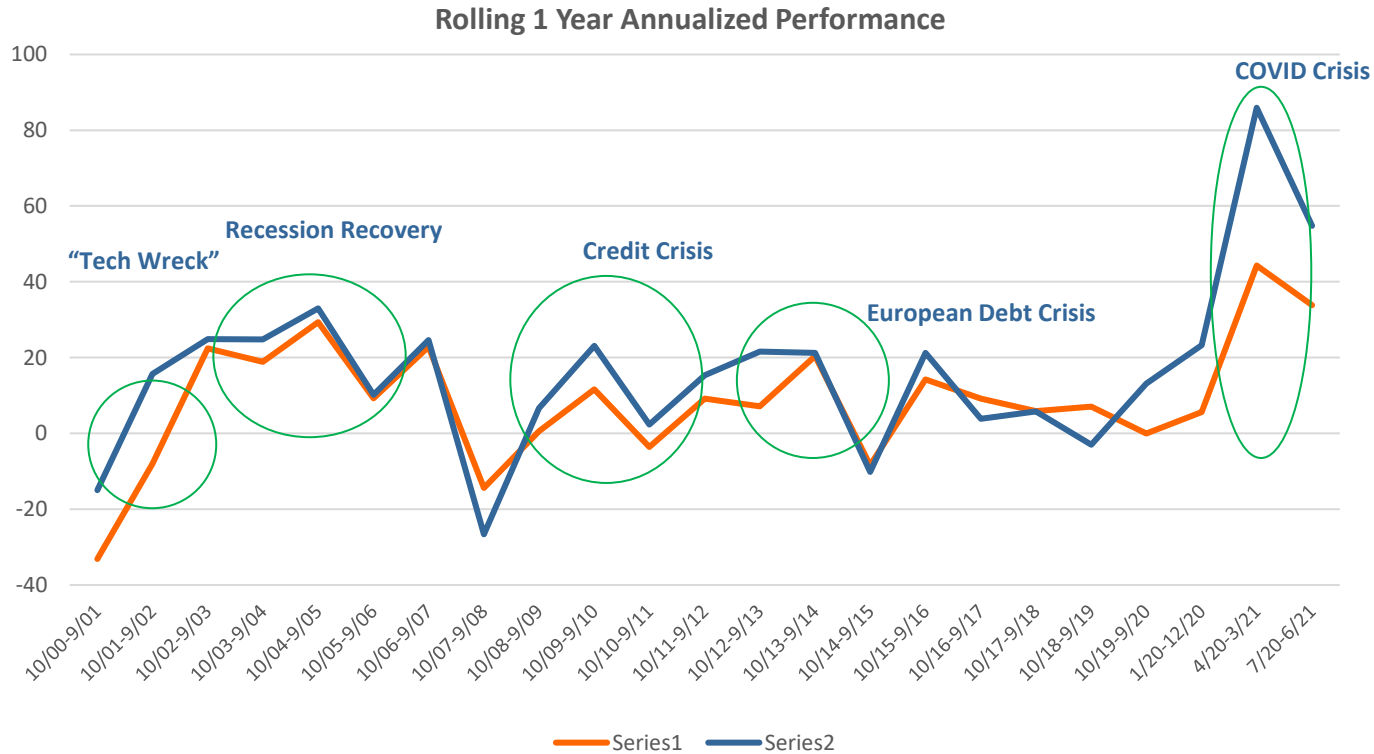
- Small cap median ~210bps higher than large cap

<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 June 2021

- Small cap median ~21% ahead of large cap TSX Composite

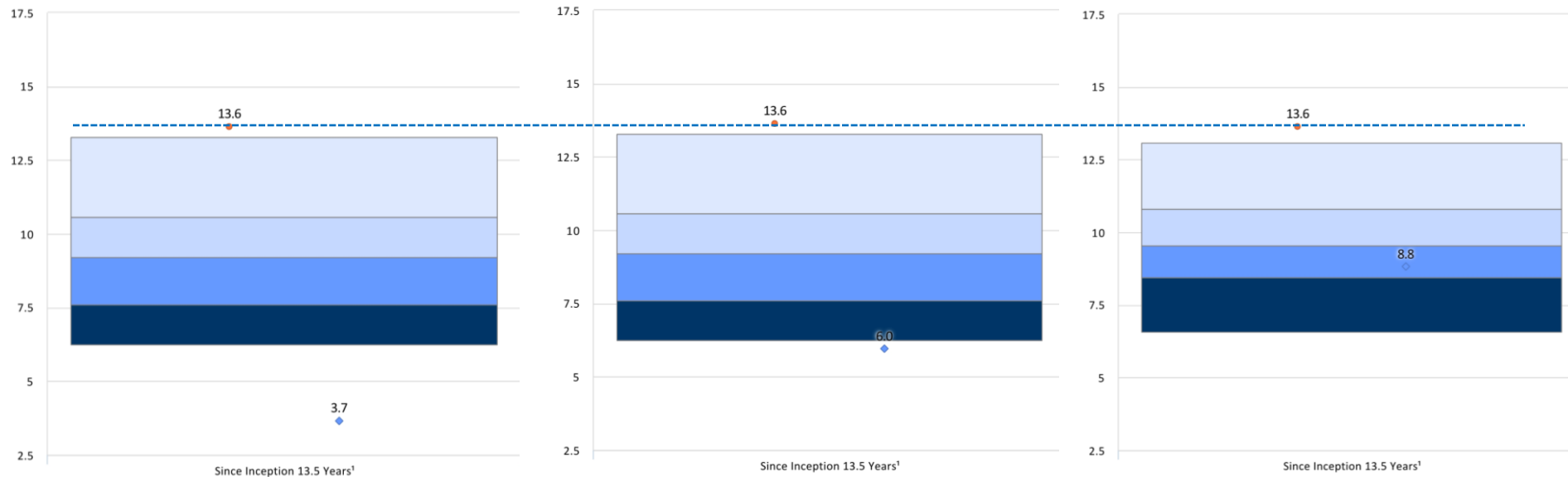
# RETURNS: Small Cap Canadian Equities

Strong Performance vs. Large Cap Cdn & Global Equities (for Periods Ending Jun. 30, 2021)

Canadian Small Cap Universe

Canadian Large Cap Universe

Global Equity Universe (\$C)



● Barrantagh Small Cap  
◆ TSX Small Cap Index

● Barrantagh Small Cap  
◆ TSX Composite Index

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

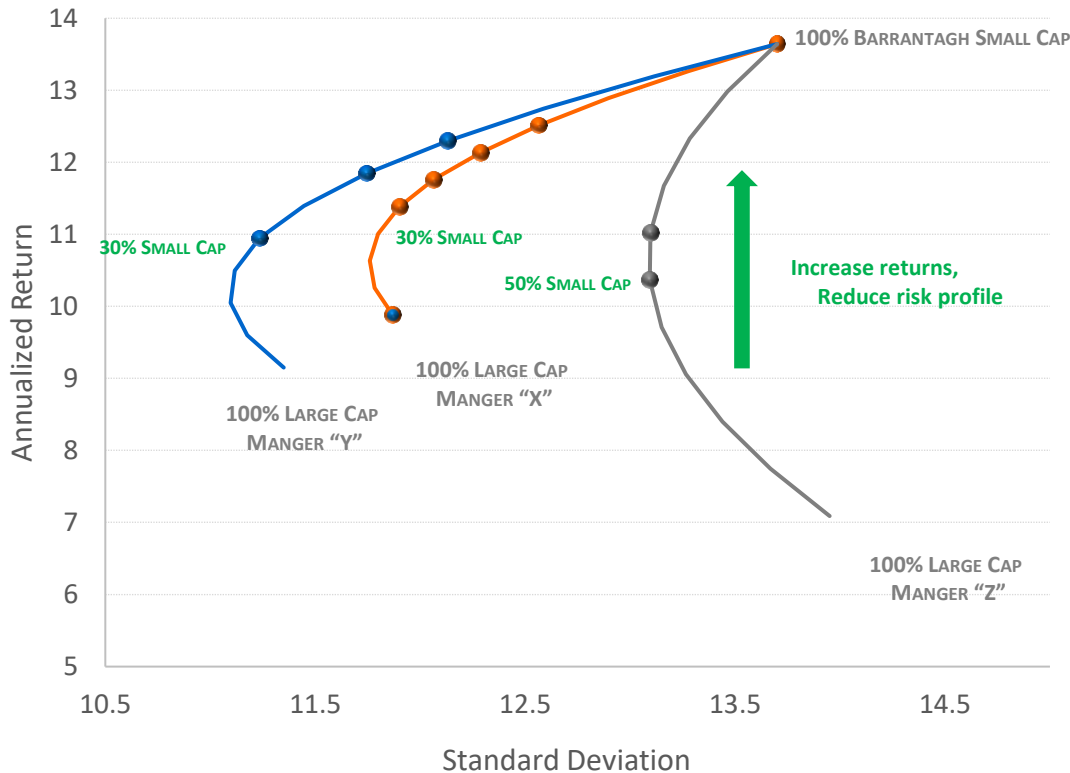
Strategy Inception Date: Jan. 1, 2008

# DIVERSIFICATION: Small Cap Canadian Equities

## Improve Returns & Lower Risk by Combining with Large Cap Managers

### Canadian Equity Allocation

Since Jan/2008 Risk Return  
For Periods Ending June 30, 2021



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:

- Weights ( $\omega$ ) of underlying components
- Risk ( $\sigma$ ) of underlying components
- Correlation ( $\rho$ ) of components

Portfolio Standard Deviation( $\sigma_p$ )

$$= \sqrt{\omega_A^2 \sigma_A^2 + \omega_B^2 \sigma_B^2 + 2\omega_A \sigma_A \omega_B \sigma_B \cdot \rho_{AB}}$$



# MANDATE REVIEW

Small Cap Canadian Equities



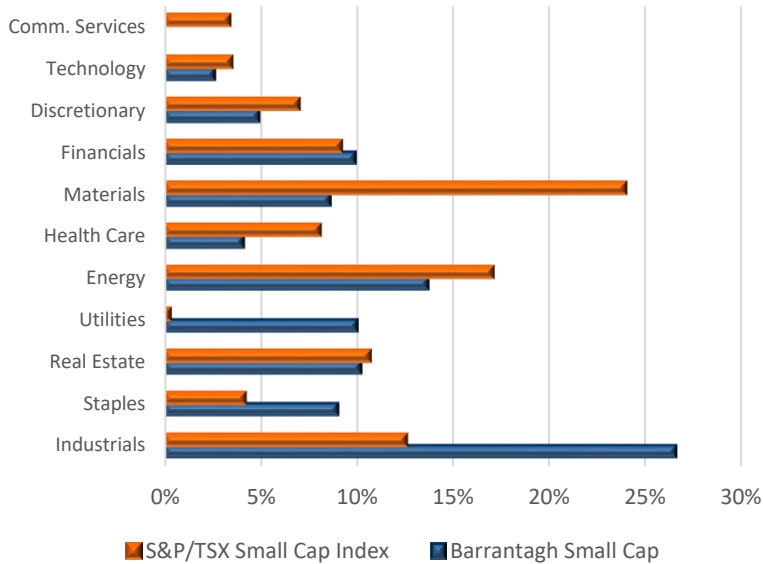
# Profile: Small Cap Canadian Equities

Portfolio at June 30, 2021

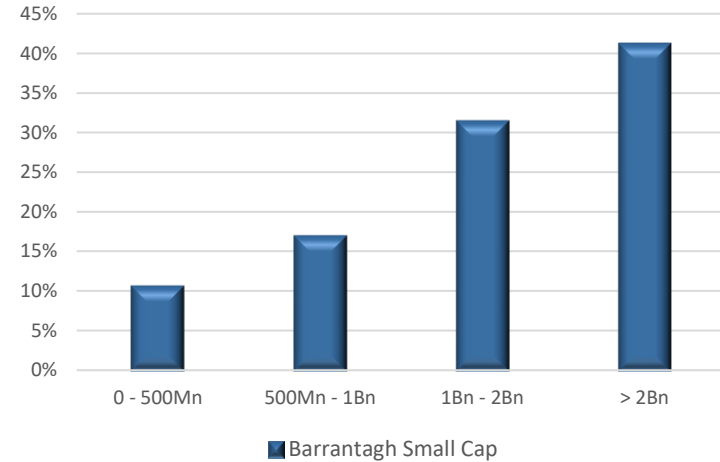
## CHARACTERISTICS

Number of Holdings	30
Avg. Market Cap	\$2.3 Bn
# Industry Sectors	10
Dividend Yield	2.1%

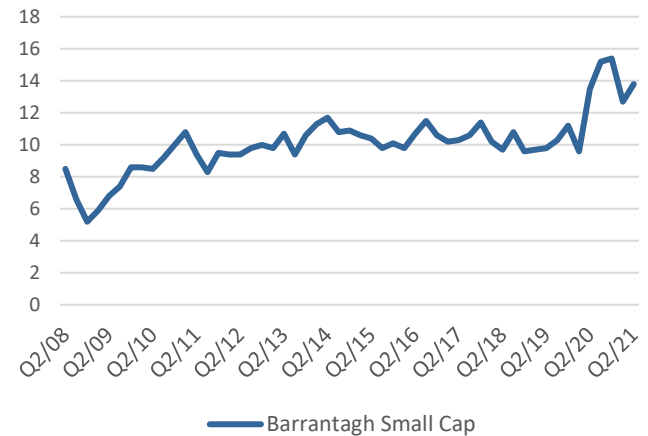
Barrantagh Small Cap Industry Weight vs. Index



Market Cap Exposure



Historic P/CF



# Canadian Small Cap Equity Portfolio

Portfolio at June 30, 2021 | YTD Transactions

	Portfolio Weight		Portfolio Weight	
<b>Consumer Discretionary</b>		<b>Industrials</b>		<b>SOLD</b>
MTY Food Group (NEW)	2.4%	Aecon Group	3.0%	<b>North West Co.</b>
Diversified Royal	2.7%	Badger Infrastructure	2.7%	<b>Parkland Fuel</b>
	5.1%	Boyd Group (-)	4.0%	<b>People Corp.</b>
<b>Consumer Staples</b>		Cargojet (-)	4.1%	<b>Primo Water</b>
Jamieson Wellness	4.0%	Calian Group	2.5%	
Neighbourly Pharmacy (NEW)	2.2%	Savaria (+)	3.3%	
Premium Brands (-)	3.0%	Mullen Group (NEW)	2.1%	<b>TRIM = (-)</b>
	9.2%	Lifeworks	4.4%	<b>ADD = (+)</b>
			26.1%	
<b>Energy</b>		<b>Real Estate</b>		
Arc Resources (NEW)	3.5%	Minto Apartment REIT (-)	3.4%	
Gibson Energy	3.2%	Storagevault Canada (-)	3.3%	
Enerflex (NEW)	2.6%	Summit Industrial REIT	3.5%	
Tidewater Midstream	3.8%		10.2%	
	13.1%	<b>Utilities</b>		
<b>Financials</b>		Boralex (-)	2.8%	
Equitable Group (NEW)	2.6%	Superior Plus	4.0%	
Trisura Group (-)	6.7%	Transalta Renewables	3.2%	
	9.3%		10.0%	
<b>Health Care</b>		<b>Materials</b>		
Andlauer Healthcare	4.1%	Altius Minerals	3.0%	
	4.1%	Chemtrade Logistics (NEW)	1.8%	
		Intertape Polymer (-)	3.6%	
<b>Information Technology</b>			8.4%	
Dye & Durham	2.4%	Cash & Equivalent	2.1%	
	2.4%	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)



### Mullen Group (MTL)



### BADGER DAYLIGHTING (BAD)





**Barrantagh**

**[bare-n-tah] {manx gaelic}**

trustworthy adj., dependable adj. originating from the Isle of Man.

## ECONOMIC REVIEW

# Outlook

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## World:

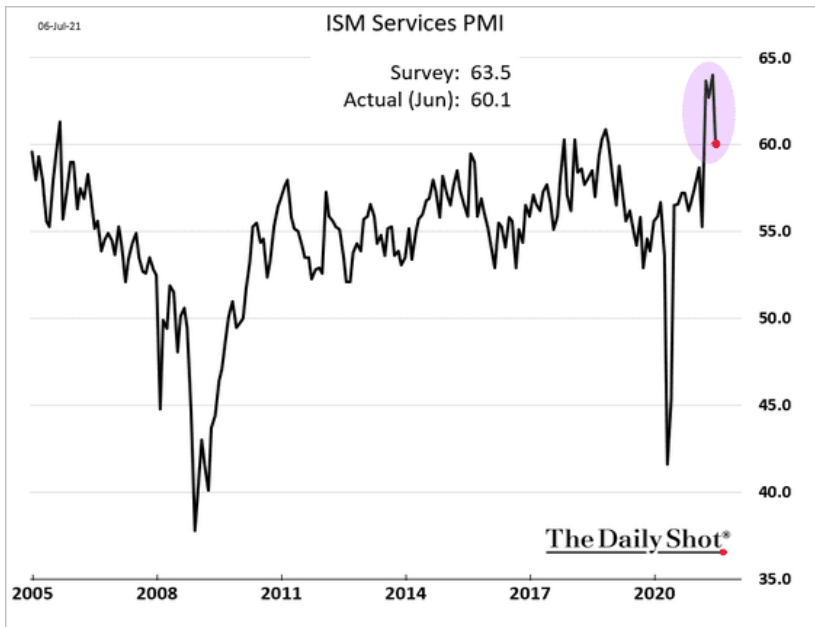
- Response has been quick
- Rate cuts, fiscal stimulus, monetary support, credit supports, regulatory burden relief
- Fiscal policy response expected to add 1.3% to global GDP
- U.S. Example – fiscal policy ~\$5.2tn
  - The U.S. response is about 25% of current GDP
  - In 2008 the response was \$830bn or 6% of GDP

## Canada:

- Fiscal support ~11% of GDP

# U.S. & Canada Manufacturing PMI

## U.S. Mfg. PMI

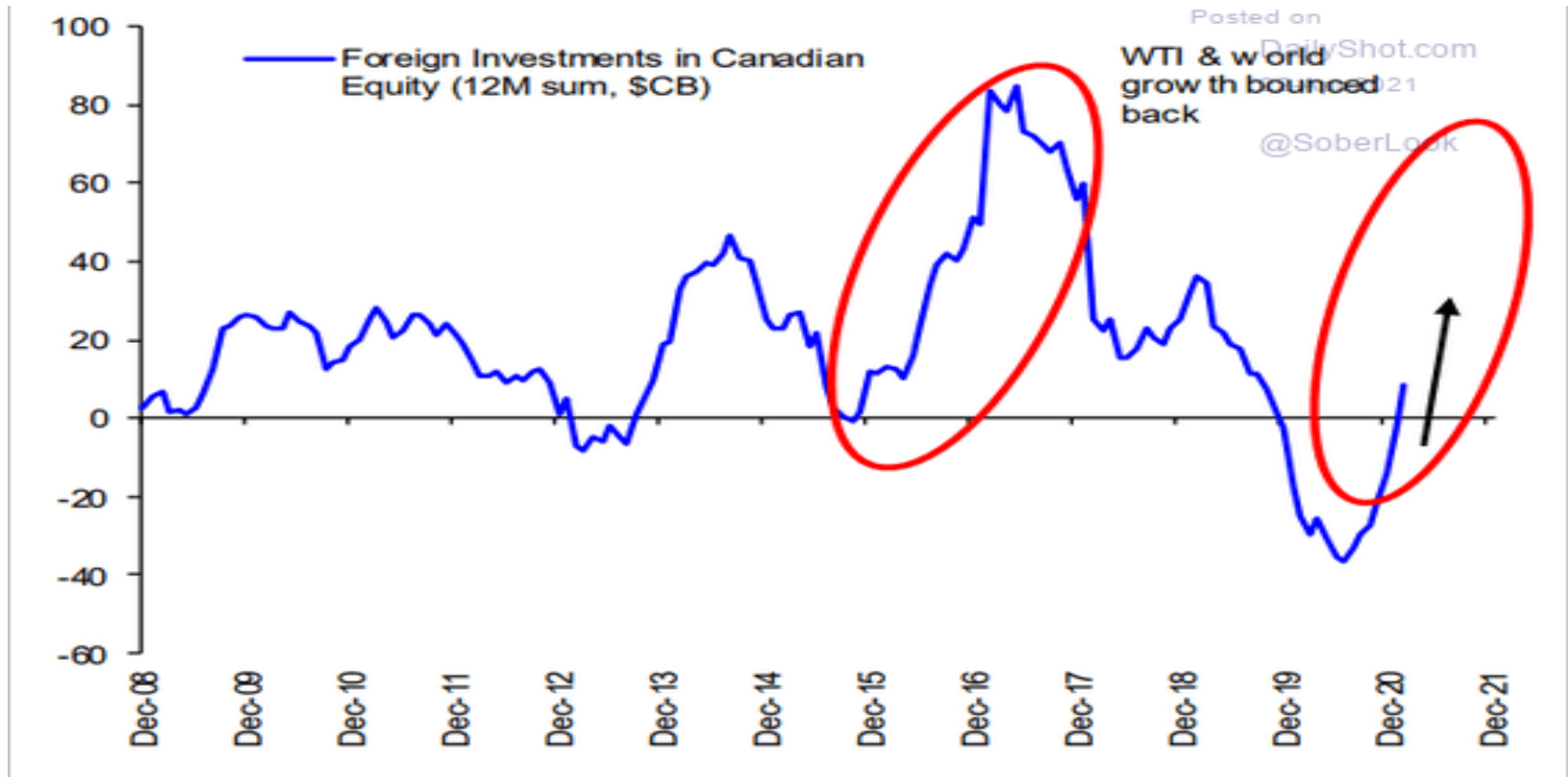


## Canada Mfg. PMI



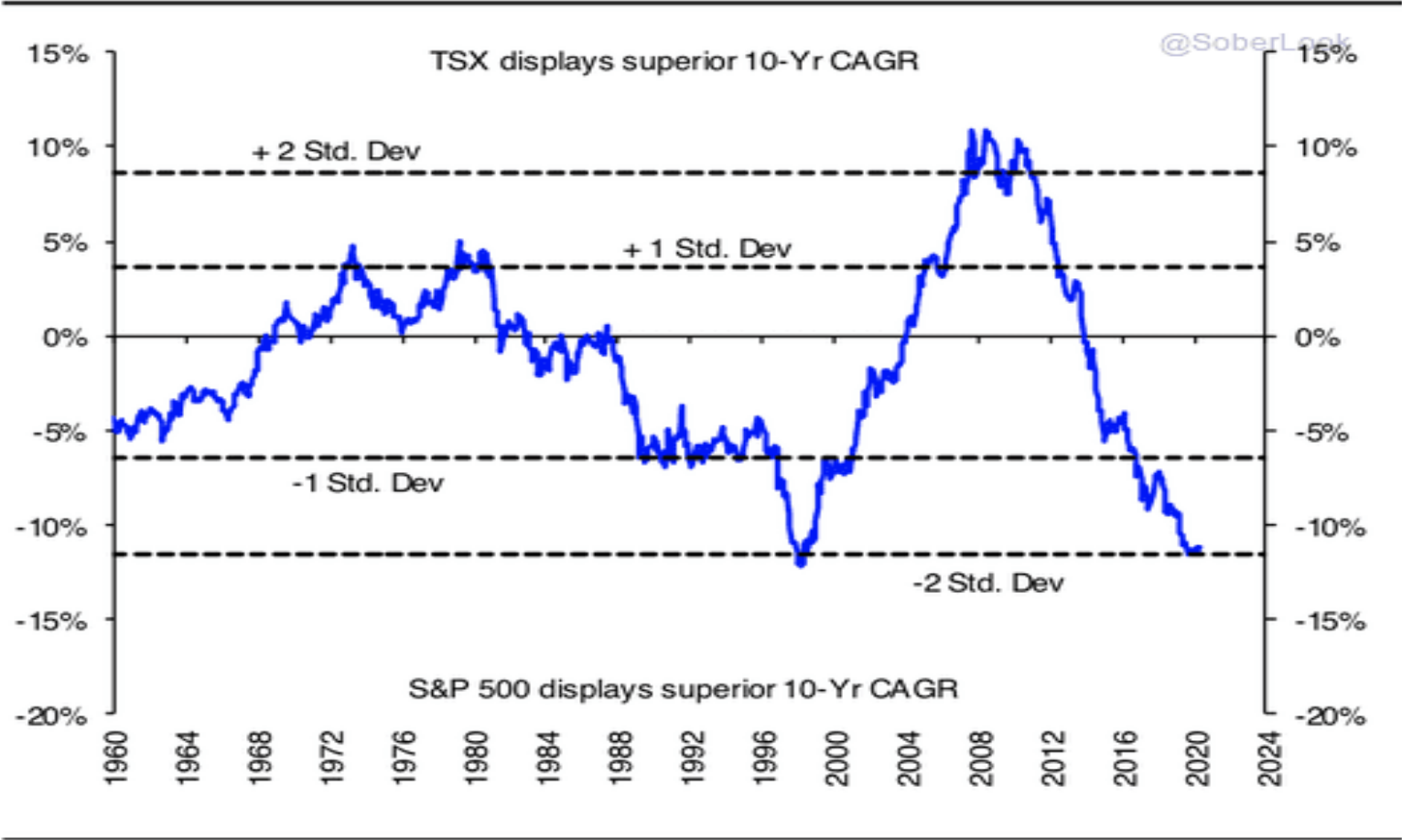
Source: The Daily Shot

# Foreign Investors Buying Canada



Source: Hugo Ste-Marie, Scotia

# TSX vs S&P500 10-YR CAGR Spread



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)
- Barrantagh Small Cap Canadian Equity Fund
  - **F Class** Fund Code: BMI105, 1% MER, Minimum: \$1,000
  - **NEW: A Class** Fund Code: BMI110, 2% MER, Minimum: \$1,000
- SMA Minimum: \$40,000
- Advisor Portal available [www.barrantagh.com](http://www.barrantagh.com) Password: RBC2

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