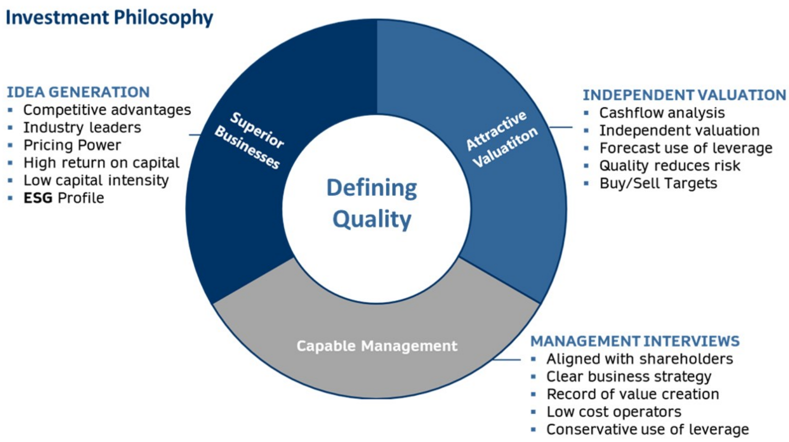
# Barrantagh Small Cap Canadian Equity Strategy

BARRANTAGH Investment Management

Barrantagh Investment Management Inc. is a bottom-up, value driven investment manager with 25 years history of offering investment services to both high net worth and institutional clients. Our investment philosophy is based on 3 key values that define quality:

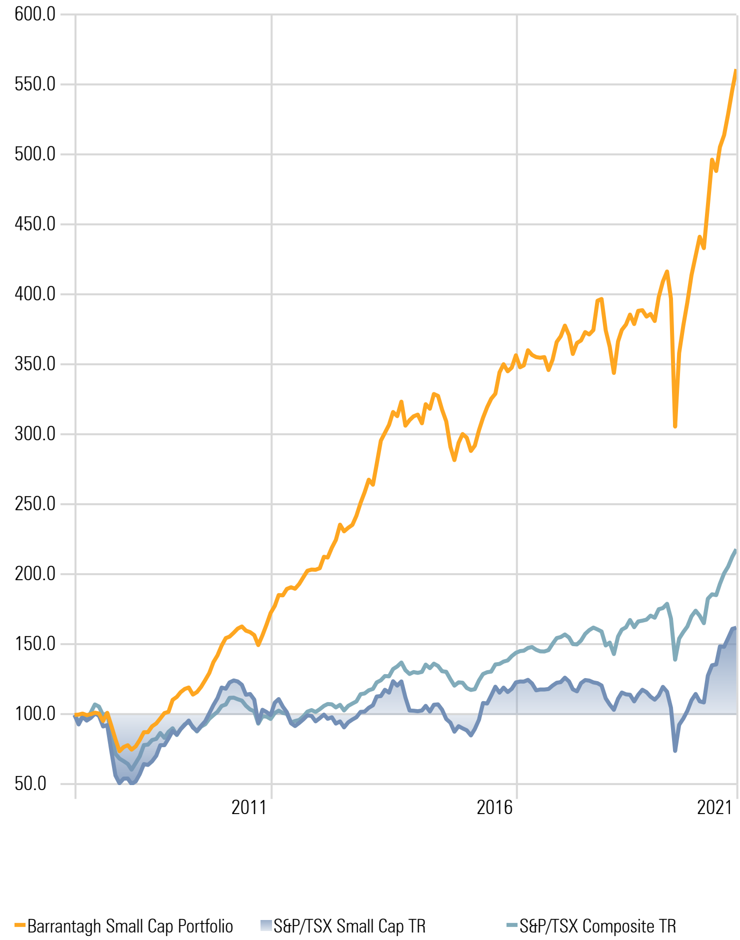



### Portfolio Characteristics

Current number of holdings: 30
Current Yield: 2.1%
Average Market Capitalization: $2.3 Billion
Diversification across 10 of 11 Sectors

### Investment Growth (CDN $) *

Time Period: 2008-01-01 to 2021-06-30

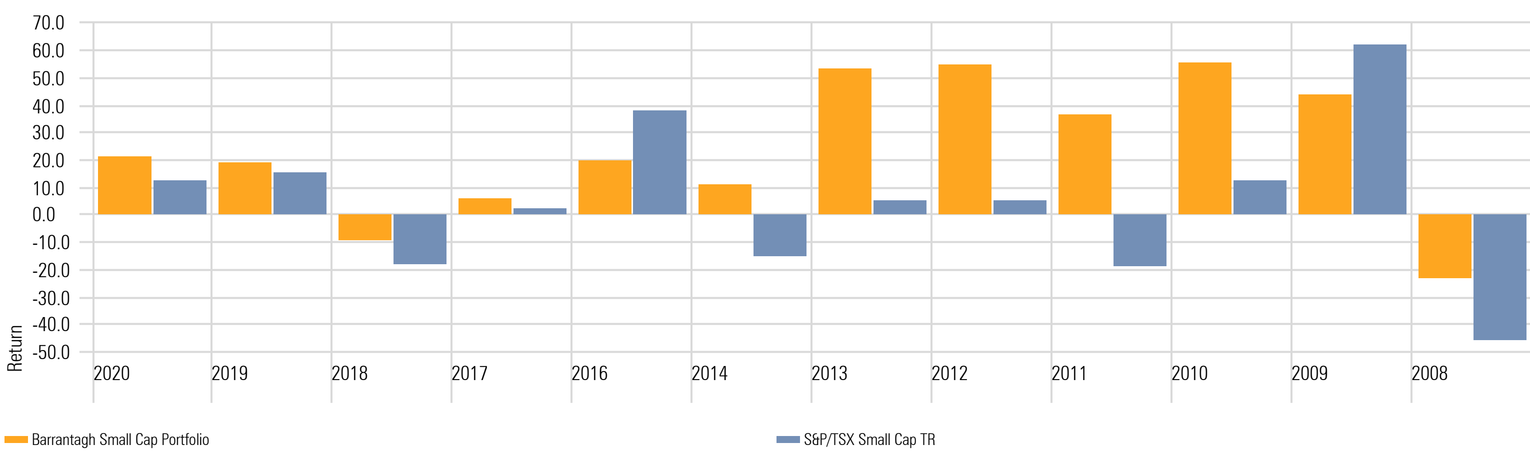



### Trailing Returns *

As of Date: 2021-06-30

| | YTD | 1 Year | 2 Years | 3 Years | 4 Years | 5 Years | 6 Years | 7 Years | 8 Years | 9 Years | 10 Years |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Barrantagh Small Cap Portfolio | 13.02 | 42.22 | 20.17 | 14.72 | 12.13 | 11.49 | 9.93 | 8.53 | 11.73 | 12.78 | 13.36 |
| S&P/TSX Small Cap TR | 19.78 | 57.72 | 19.08 | 9.23 | 8.26 | 7.34 | 7.74 | 3.91 | 7.49 | 6.51 | 3.56 |

### Investment Performance Chart *




* Investment returns shown are provided for informational purposes only and are calculated before management fees (gross of fees). Returns are annualized for periods greater than 1 year and calculated on a total return basis which includes income and capital gains (losses). Investment performance is calculated from a composite of identical client accounts. Past performance is no guarantee of future performance and future performance will fluctuate with future market outcomes.

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Source: Morningstar Direct

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### Top 10 Holdings

Portfolio Date: 2021-06-30

| | Portfolio Weighting % |
|---|---|
| Trisura Group Ltd Registered Shs | 6.66 |
| LifeWorks Inc | 4.38 |
| Andlauer Healthcare Group Inc Ordinary Shares (Sub Voting) | 4.06 |
| Boyd Group Services Inc Ordinary Shares | 3.92 |
| Superior Plus Corp | 3.86 |
| Tidewater Midstream and Infrastructure Ltd | 3.81 |
| Intertape Polymer Group Inc | 3.65 |
| Cargojet Inc | 3.60 |
| Jamieson Wellness Inc | 3.52 |
| ARC Resources Ltd | 3.51 |

### Current Portfolio - Equity Sectors (GICS)

Portfolio Date: 2021-06-30

| | % |
|---|---|
| Energy | 13.8 |
| Materials | 8.7 |
| Industrials | 26.6 |
| Consumer Discretionary | 4.9 |
| Consumer Staples | 9.1 |
| Healthcare | 4.1 |
| Financials | 10.0 |
| Information Technology | 2.6 |
| Communication Services | 0.0 |
| Utilities | 10.1 |
| Real Estate | 10.2 |
| **Total** | **100.0** |

## Second Quarter Commentary

In the quarter, the Fund performed in line with its benchmark, the S&P/TSX Small Cap Index.

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 Fund’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.

One new position added during the period was Neighbourly Pharmacy (NBLY), 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.

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.



Source: Morningstar Direct