

# **BARRANTAGH**

Investment Management

**Update – Mar. 31, 2023**

- Firm Update
- Small Cap Canadian Equities
- Canadian Equities Income
- Economic Update



**Architect Program**

# 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

### PROMOTIONS:

- **Robert Vidinovski** from Associate Portfolio Manager to Portfolio Manager– Fixed Income
- **Kevin Chu** from Associate Portfolio Manager to Portfolio Manager– Global Equities

### Diversification Strategies:

- Small Cap – new prospectus fund launched in Q2/19
  - ‘F’ Class – 1.0% MER, 14-year composite track-record
  - ‘A’ Class – 2.0% MER launched in Q2/2021
- Mid Cap – reached 5-year track record end of Q2/22

### 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:

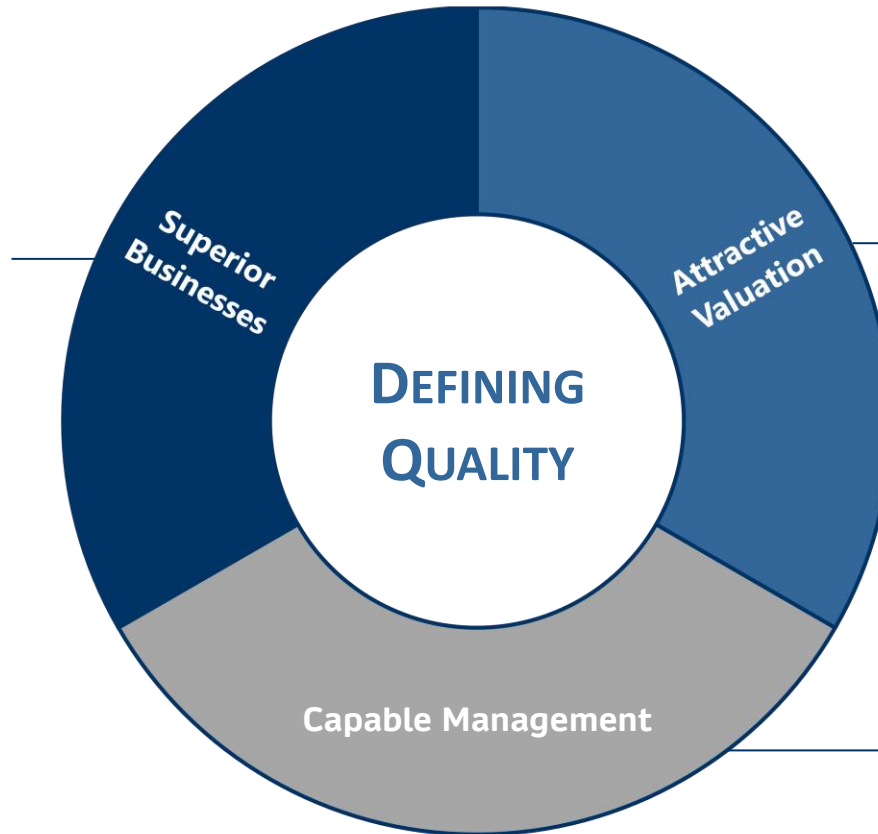
- Awarded new SMA mandate (Global Equities) continuing to broaden our offerings with 5 leading IIROC firms

# Investment Philosophy

## Defining Quality Value

### 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 Investing

## Adapting a Recent Global Study<sup>1</sup> to the Canadian Market

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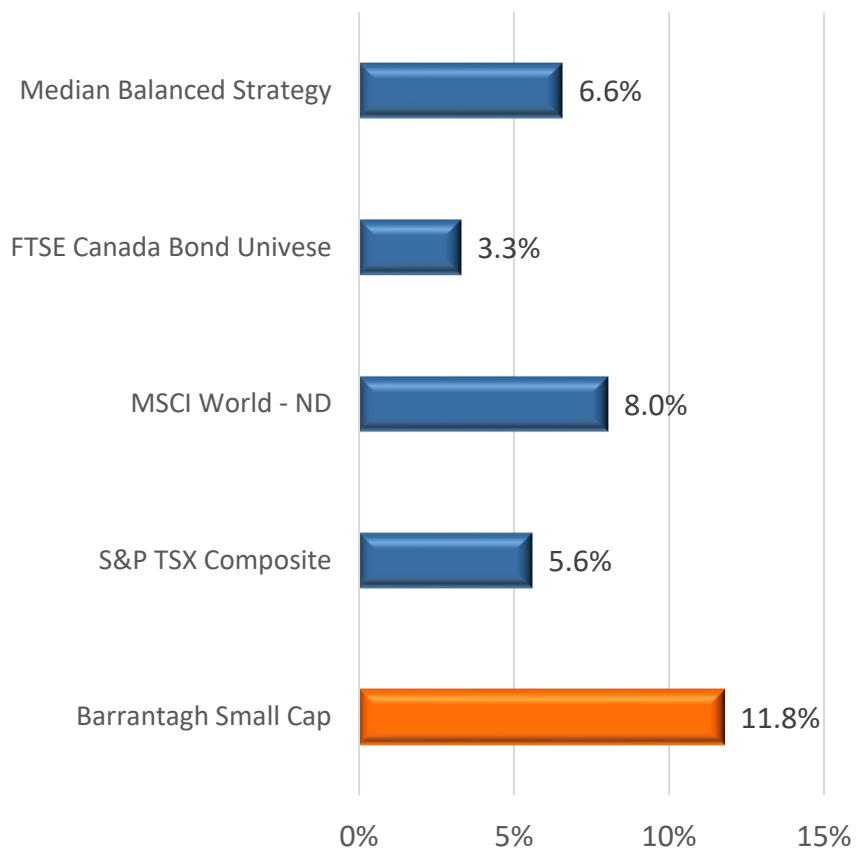
- Empirical evidence of superior returns
- Structural tailwinds
  - Small companies generate higher shareholder returns
  - Beneficiaries of M&A
  - Higher management ownership (“Skin in the Game”)
  - Alpha opportunities – less coverage & less efficiently priced
- New forces at work
  - Domestic focus as globalization faces challenges
  - Outperformance in low growth environments

<sup>1</sup>JP Morgan: The Case for SMID – October 31, 2022

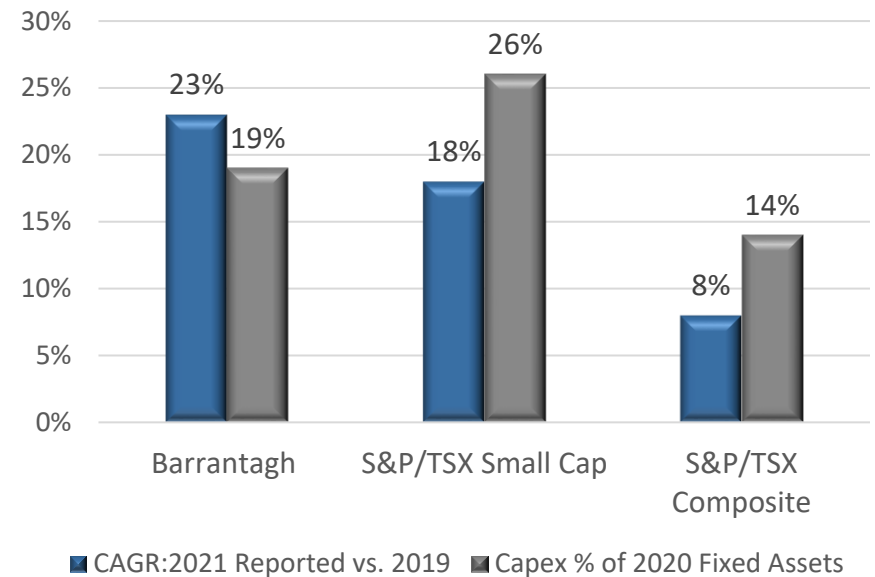
# Small Cap Investing

## Empirical Evidence of Faster Growth

Annualized Return 2008 – Q1 2023<sup>1</sup>



Revenue Growth & Capital Investment

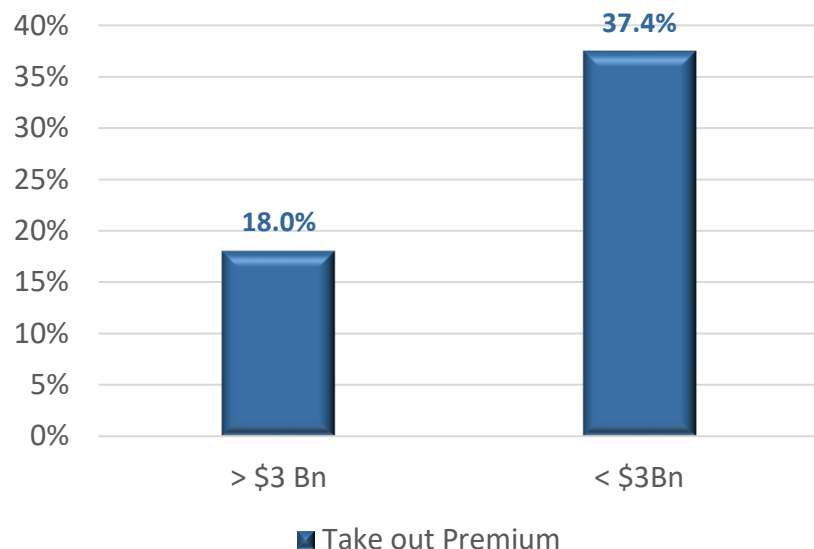


<sup>1</sup>Annualized Returns Since Barrantagh Small Cap Canadian Inception Jan/2008 through Mar./2023

# Small Cap Investing

## Increases M&A Activity Potential and Premium

M&A in Canada Since 2019



- 11 Deals completed > \$3Bn Total Value
- 67 Deals completed < \$3 Bn Total Value

Source: Bloomberg, Barrantagh Research

Barrantagh Positions Targeted

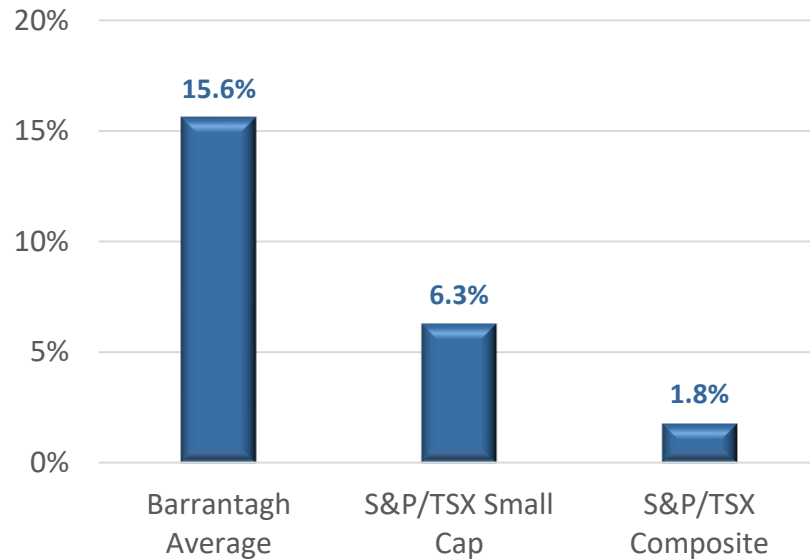
	Announce Date	Premium <sup>1</sup>
Summit Industrial	04/2022	31%
Lifeworks	Q2/2022	88%
Intertape Polymer	Q1/2022	67%
People Corp.	Q4/2020	75%
Enercare	Q3/2018	64%
Spartan Energy	Q2/2018	5%
Pure Industrial	Q1/2018	21%

<sup>1</sup>Premium to 1 Month Average Price

# Small Cap Investing

Barrantagh positions have larger Insider Ownership “Skin in the Game”

% Insider Ownership



Source: Bloomberg, Barrantagh Research

Barrantagh Top 10

	% Ownership
Andlauer Healthcare	57%
Neighbourly Pharmacy	52%
Softchoice	50%
Dentalcorp	44%
Minto Apartment REIT	41%
Storagevault	38%
Brookfield Business	35%
Tidewater Midstream	35%
Propel Holdings	30%
Savaria	25%



# Small Cap Investing

## Deglobalization/Reshoring/Friendshoring – Tend to Reduce Economic Growth

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- U.S. - China tariffs
- Covid pandemic
- Geopolitics
- Supply chain bottlenecks
- Shipping costs
- Carbon Taxes = trade tariff
- Strategic supply chains (rare earth metals)

### However:

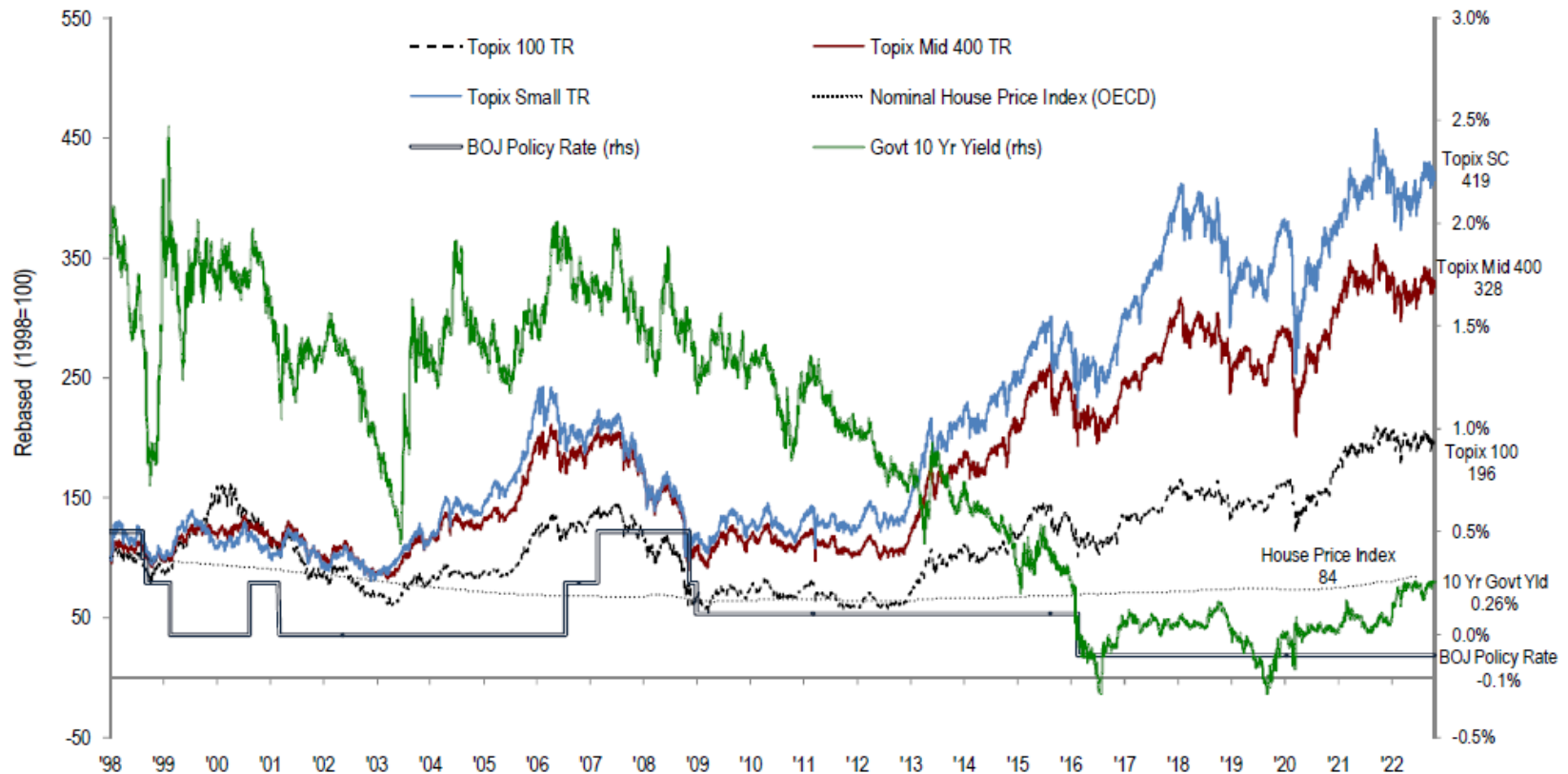
- Barrantagh Small Cap ~70% revenues Canadian & ~89% Canadian + U.S.
- S&P/TSX Composite ~53% Canadian revenues

Source: Bloomberg, Barrantagh Research

# Small Cap Investing

## In a Low Growth Environment Small Caps Outperform – Japan Example

### Cumulative Performance – Japan (1998 – Current)

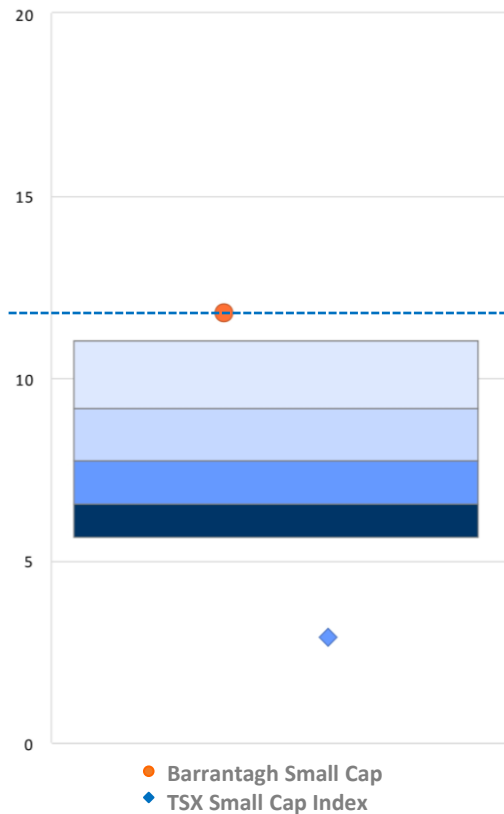


Source: Factset, Bloomberg, JP Morgan

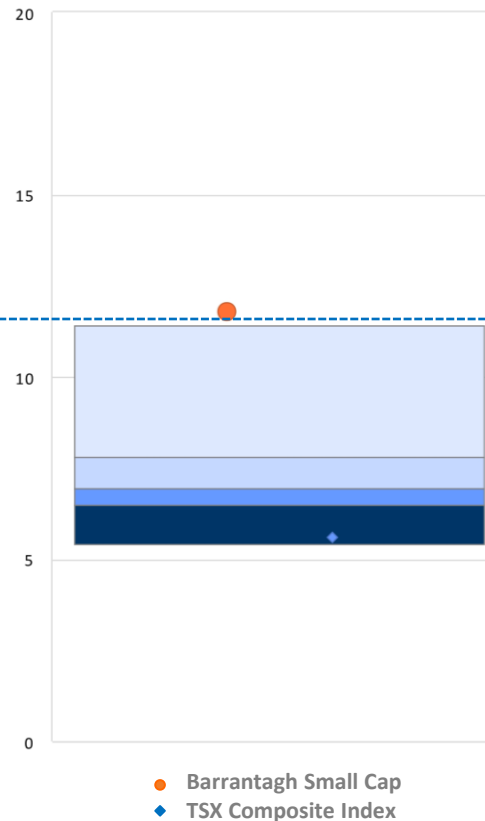
# RETURNS: Small Cap Canadian Equities

Strong Performance vs. Large Cap Cdn & Global Equities (for Periods Ending Mar. 31, 2023)

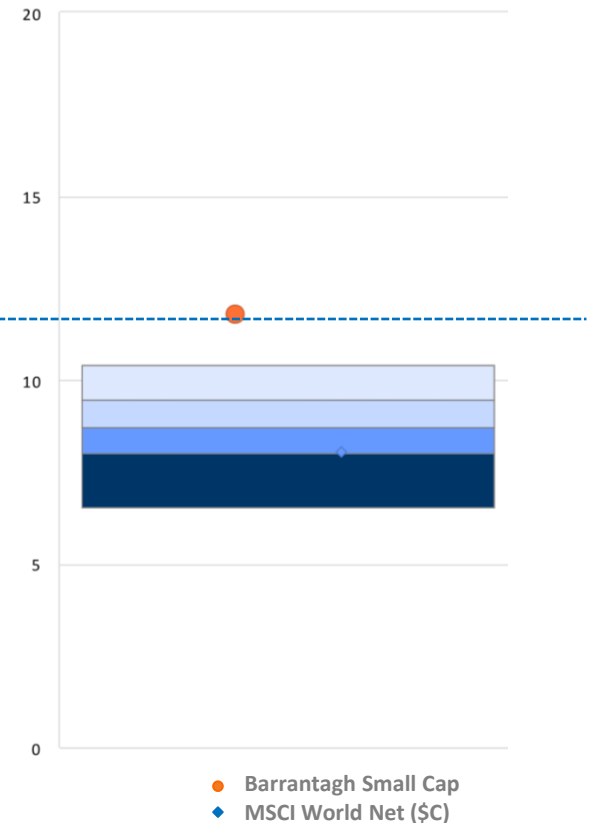
Canadian Small Cap Universe



Canadian Large Cap Universe



Global Equity Universe (\$C)



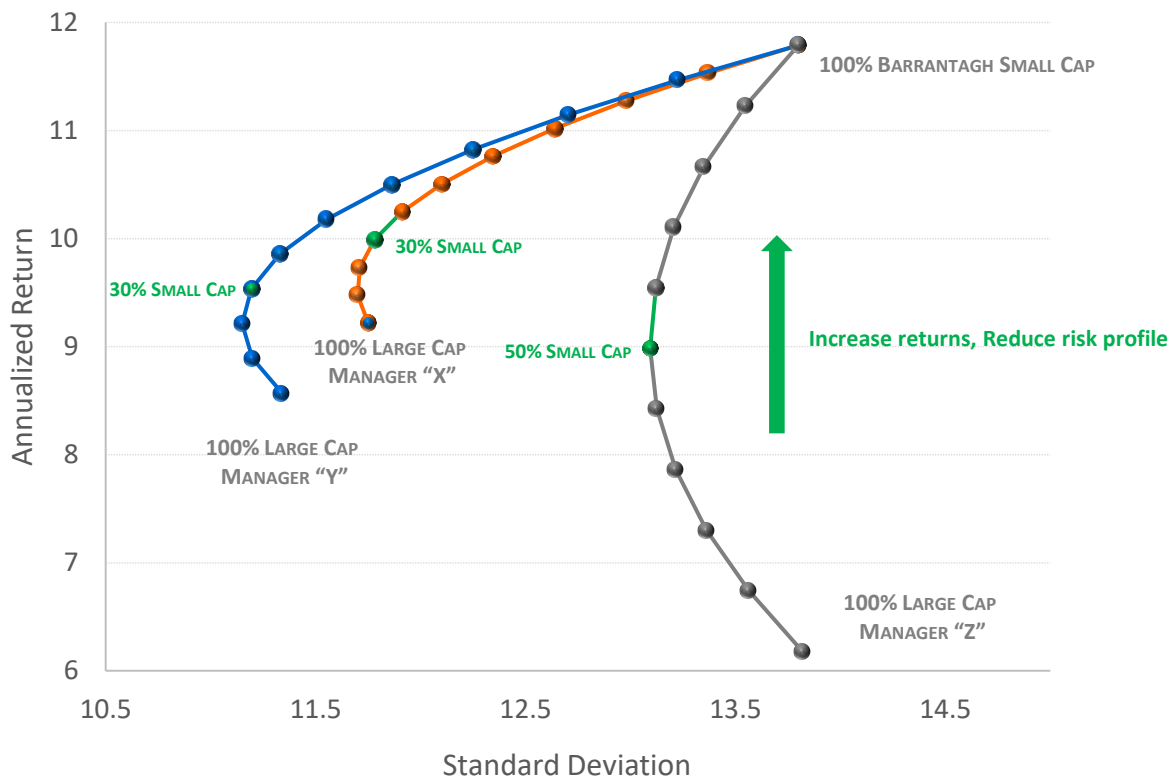
Strategy Inception Date: Jan. 1, 2008

# 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 Mar. 31, 2023



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:

1. Weights ( $\omega$ ) of underlying components
2. Risk ( $\sigma$ ) of underlying components
3. Correlation ( $\rho$ ) of components

$$\text{Portfolio Standard Deviation}(\sigma_p) = \sqrt{\omega_A^2 \sigma_A^2 + \omega_B^2 \sigma_B^2 + 2\omega_A \sigma_A \omega_B \sigma_B \cdot \rho_{AB}}$$



## MANDATE REVIEW

Small Cap Canadian Equities

# Small Cap Canadian Equity

Performance at March 31, 2023

For Periods Ending Mar. 31, 2023	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>-1.7%</b>	<b>-6.2%</b>	<b>3.1%</b>	<b>21.3%</b>	<b>9.6%</b>	<b>8.4%</b>	<b>7.2%</b>	<b>8.8%</b>	<b>7.0%</b>	<b>7.1%</b>	<b>9.6%</b>
<b>S&amp;P/TSX Small Cap Index</b>	<b>4.5%</b>	<b>-12.6%</b>	<b>1.9%</b>	<b>27.6%</b>	<b>7.7%</b>	<b>5.7%</b>	<b>3.6%</b>	<b>6.9%</b>	<b>5.3%</b>	<b>3.5%</b>	<b>4.6%</b>
<b>S&amp;P/TSX Composite Index</b>	<b>4.6%</b>	<b>-5.2%</b>	<b>6.8%</b>	<b>18.0%</b>	<b>9.0%</b>	<b>8.8%</b>	<b>7.6%</b>	<b>9.1%</b>	<b>7.0%</b>	<b>7.0%</b>	<b>7.9%</b>

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>BIM Canadian Small Cap</b>	<b>-5.7%</b>	<b>18.8%<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>
<b>S&amp;P/TSX Small Cap Index</b>	<b>-9.3%</b>	<b>20.3%</b>	<b>12.9%</b>	<b>15.8%</b>	<b>-18.2%</b>	<b>2.7%</b>	<b>38.5%</b>	<b>-13.4%</b>	<b>-2.4%</b>	<b>7.6%</b>	<b>-2.2%</b>	<b>-16.4%</b>	<b>35.1%</b>	<b>62.3%</b>	<b>-45.5%</b>

<sup>1</sup> Periods where index performance was driven by commodity rallies (Mining & Oil Exploration & Production)

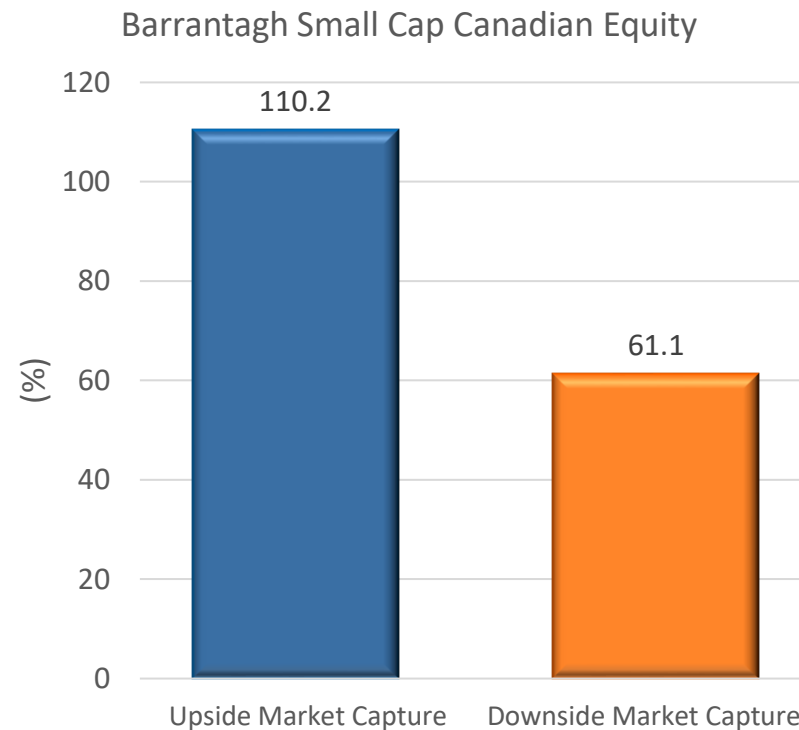
Green indicates periods that Barrantagh Small Cap outperformed

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

# Small Cap Canadian Equity

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

Mar. 31, 2023	Barrantagh Small Cap Cdn. Equites <sup>1</sup>	TSX Small Cap	Median
<b>Annualized Return</b>	<b>11.8%</b>	<b>2.9%</b>	<b>7.9%</b>
Standard Deviation	13.8%	21.1%	17.9%
<i>Sharpe Ratio</i>	<i>0.78</i>	<i>0.1</i>	<i>0.39</i>



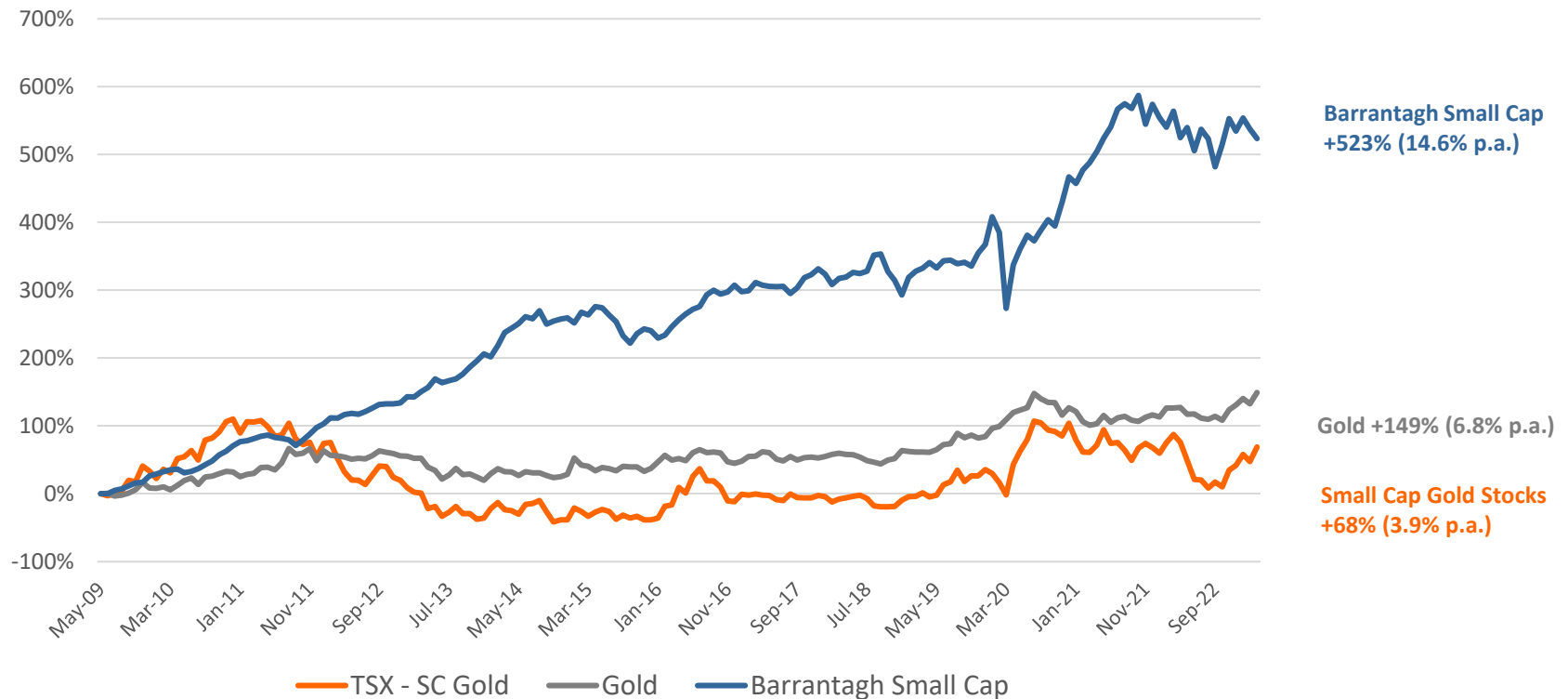
<sup>1</sup> Since Inception Jan. 1, 2008

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

# Small Cap Canadian Equity Mandate

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

### Cumulative Returns ~ 14 Years to Mar. 31 2023





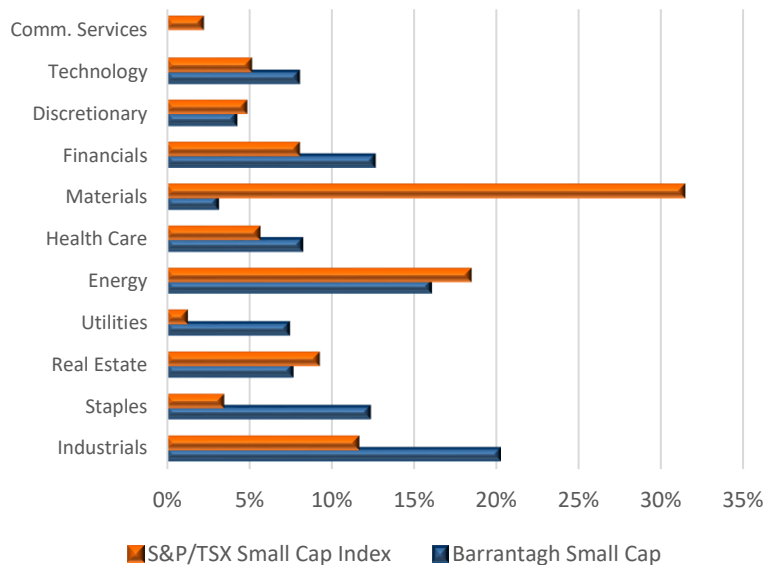
# Profile: Small Cap Canadian Equities

Portfolio at March 31, 2023

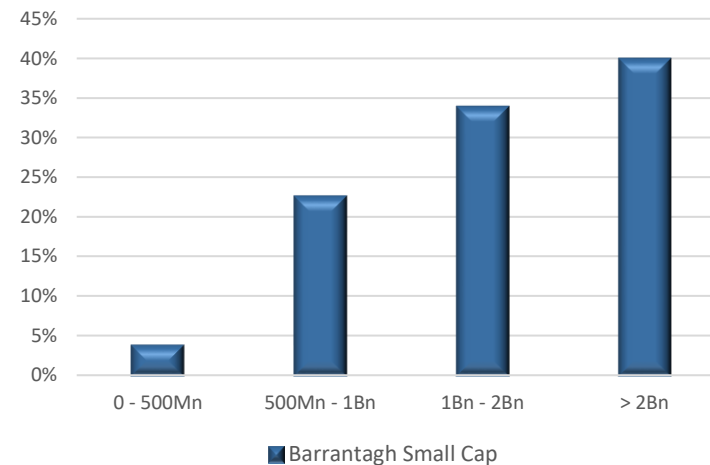
## CHARACTERISTICS

Number of Holdings	27
Avg. Market Cap	\$2.3 Bn
# Industry Sectors	10
Dividend Yield	2.1%

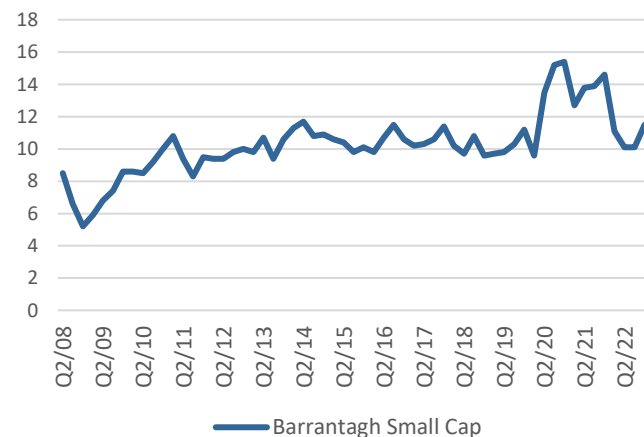
## Barrantagh Small Cap Industry Weight vs. Index



## Market Cap Exposure



## Historic P/CF



# Canadian Small Cap Equity Portfolio

Portfolio at March 31, 2023 | Q1 Transactions

	Portfolio Weight		Portfolio Weight		Portfolio Weight
<b>Consumer Discretionary</b>		<b>Industrials</b>		<b>Utilities</b>	
MTY Food Group	4.2%	Boyd Group	5.9%	Boralex	4.3%
	4.2%	Brookfield Business (+)	2.2%	Superior Plus	3.0%
<b>Consumer Staples</b>		Cargojet (+)	3.0%		7.3%
Jamieson Wellness	3.6%	Calian Group	4.2%	<b>Materials</b>	
Neighbourly Pharmacy (+)	4.5%	Savaria	2.9%	Chemtrade Logistics	3.0%
Premium Brands	3.9%		18.2%		3.0%
	12.0%	<b>Real Estate</b>		Cash & Equivalent	5.3%
<b>Energy</b>		Minto Apartment REIT (+)	3.0%	Total	100.0%
Arc Resources	4.2%	Storagevault Canada	4.4%		
Gibson Energy	2.9%		7.4%		
Enerflex	3.0%	<b>Health Care</b>		<b>Sold</b>	
Tamarack Valley	3.1%	Andlauer Healthcare	4.8%	<b>Summit Industrial</b>	
Tidewater Midstream	2.5%	Dentalcorp (+)	3.0%		
	15.7%		7.8%		
<b>Financials</b>		<b>Information Technology</b>			
Definity Financial	4.1%	Dye & Durham (+)	4.1%		
EQB Group	2.8%	Softchoice (+)	2.9%		
Propel Holdings	1.0%		7.0%		
Trisura Group	4.2%			<b>TRIM = (-)</b>	
	12.1%			<b>ADD = (+)</b>	

# Canadian Small Cap Equity Portfolio

## Select Holdings – Brand Recognition

### JAMIESON WELLNESS (JWEL)



### CARGOJET (CJT)



Amazon optional  
ownership stake ~15%



### BORALEX (BLX)



### PREMIUM BRANDS (PBH)



### BOYD GROUP (BYD)



### STORAGEVAULT (SVI)





## CANADIAN EQUITIES INCOME

# Canadian Equity Income Mandate

Performance at March 31, 2023

For Periods Ending Mar. 31, 2022	YTD	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	6 Yrs	7 Yrs	8 Yrs	9 Yrs	10 Yrs
<b>BIM Canadian Equity Income*</b>	<b>1.3%</b>	<b>-2.3%</b>	<b>8.9%</b>	<b>17.4%</b>	<b>8.0%</b>	<b>7.8%</b>	<b>6.1%</b>	<b>7.5%</b>	<b>5.7%</b>	<b>5.8%</b>	<b>7.3%</b>
S&P/TSX Composite	4.6%	-5.2%	6.8%	18.0%	9.0%	8.8%	7.6%	9.1%	7.0%	7.0%	7.9%

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
<b>BIM Canadian Equity Income*</b>	<b>0.9%</b>	<b>26.3%</b>	<b>-4.8%</b>	<b>24.4%</b>	<b>-9.6%</b>	<b>5.0%</b>	<b>16.4%</b>	<b>-7.8%</b>	<b>15.1%</b>	<b>20.7%</b>	<b>11.5%</b>	<b>12.7%</b>
S&P/TSX Composite	-5.8%	25.1%	5.6%	22.9%	-8.9%	9.1%	21.1%	-8.3%	10.6%	13.0%	7.2%	-8.7%

- Canadian Equity Income annualized returns for periods longer than eight years are an ex-cash carve out of our long-term balanced income composite.

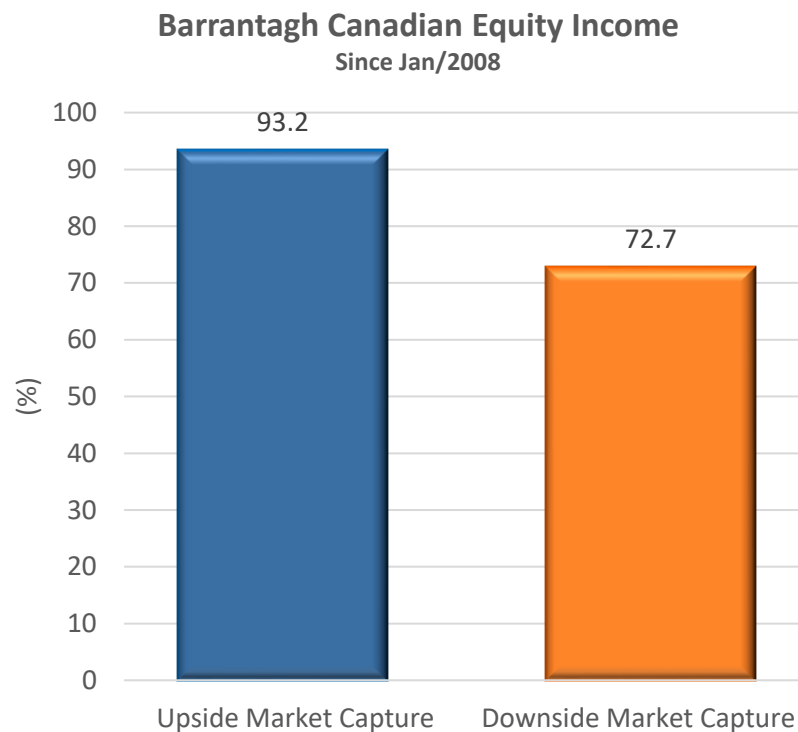
# Canadian Equities Income

Risk Statistics vs. Canadian Equity (for Periods Ending March 31, 2023)

	Barrantagh Cdn. Equites Income <sup>1</sup>	TSX Composite	Median <sup>2</sup>
<b>Annualized Return</b>	<b>7.9%</b>	<b>5.6%</b>	<b>8.1%</b>
Standard Deviation	12.6%	14.0%	11.4%
<i>Sharpe Ratio</i>	<i>0.5</i>	<i>0.3</i>	<i>.59</i>
Beta	0.76	1.0	0.76
<i>Treynor Ratio</i>	<i>9.0</i>	<i>4.6</i>	<i>9.1</i>

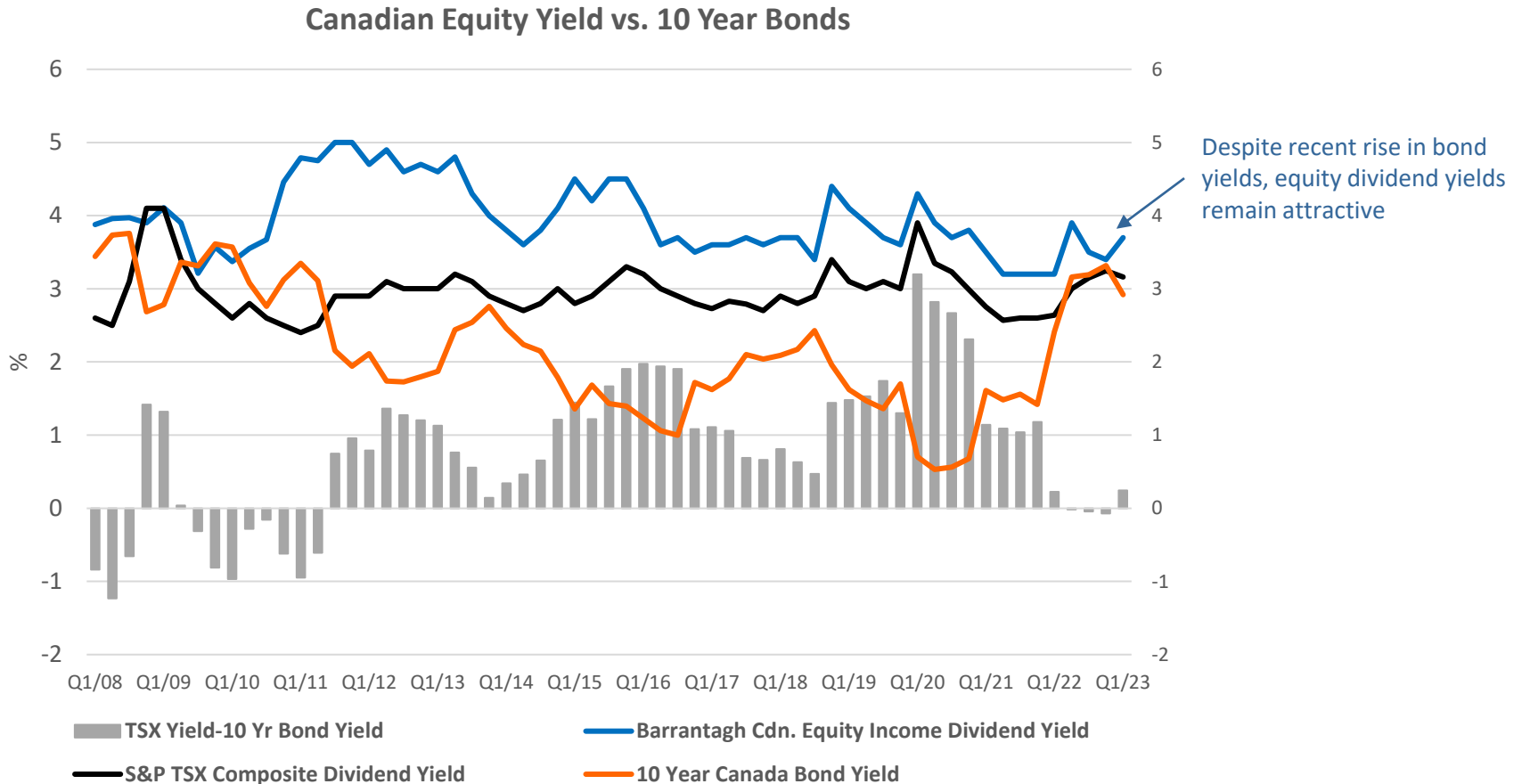
<sup>1</sup> Since Jan./2008

<sup>2</sup> Versus Evestment Canadian Dividend Focus Universe



# Canadian Equity Market

## Equities Yields are Attractive vs. Bonds



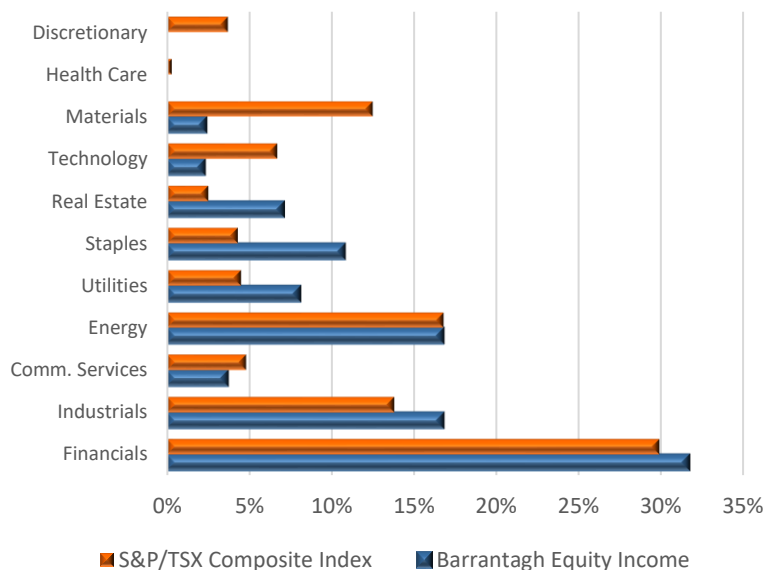
# Profile: Canadian Equities Income

Portfolio at March 31, 2023

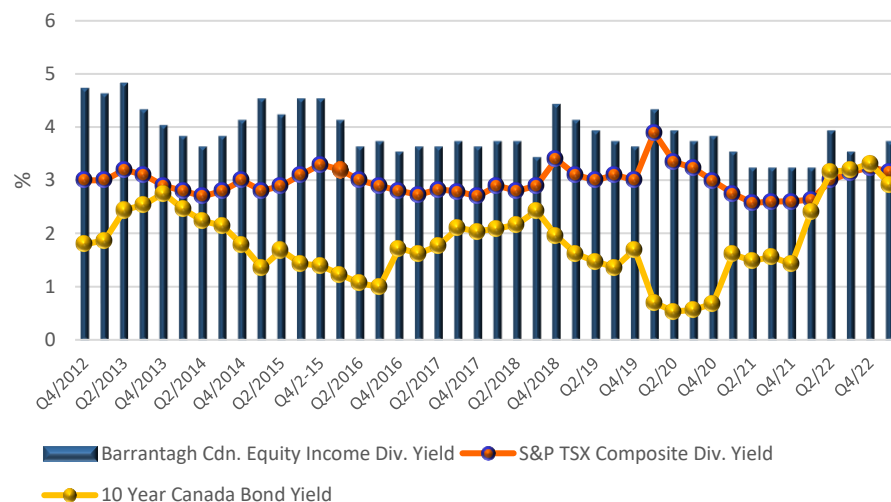
## CHARACTERISTICS

Number of Holdings	31
Avg. Market Cap	42.0Bn
# Industry Sectors	9
Dividend Yield	3.7%
P/CF	7.6X

Barrantagh Equity Income Industry Weight vs. Index



Quarterly Dividend Yield History





# Canadian Equity Income Portfolio

## Portfolio at March 31, 2023 | Q1 Transactions

	Portfolio Weight		Portfolio Weight
<b>Consumer Staples</b>		<b>Industrials</b>	
Maple Leaf Foods	1.9%	Boyd Group (-)	2.8%
Neighbourly Pharmacy (+)	3.3%	CP Rail	3.4%
Premium Brands	2.7%	Finning	2.0%
Primo Water	2.6%	Calian Group	3.4%
	10.5%	Toromont Industries	1.9%
		Savaria	2.8%
<b>Energy</b>			16.3%
Gibson Energy	2.2%	<b>Financials</b>	
Parkland Fuel	2.2%	Bank of Nova Scotia	5.4%
Canadian Natural Resources	4.3%	Definity Financial (-)	2.6%
Tourmaline Oil	4.8%	IA Financial	3.4%
TC Energy	2.8%	Intact Financial	2.9%
	16.3%	Royal Bank of Canada	6.7%
<b>Communication Services</b>		Sun Life Financial	3.2%
Rogers Communications	3.6%	TD Bank	6.3%
	3.6%		30.5%
<b>Information Technology</b>		<b>Utilities</b>	
Dye & Durham (+)	2.2%	Brookfield Infrastructure	2.4%
	2.2%	Superior Plus	2.4%
<b>Real Estate</b>		Altagas	3.1%
Granite REIT	3.0%		7.9%
Canadian Apartment REIT	1.7%		
Colliers International (NEW)	2.2%		
	6.9%	Cash & Equivalents	3.4%
<b>Materials</b>		Total	100.0%
Chemtrade Logistics	2.4%		
	2.4%		

TRIM = (-)

ADD = (+)



## ECONOMIC REVIEW

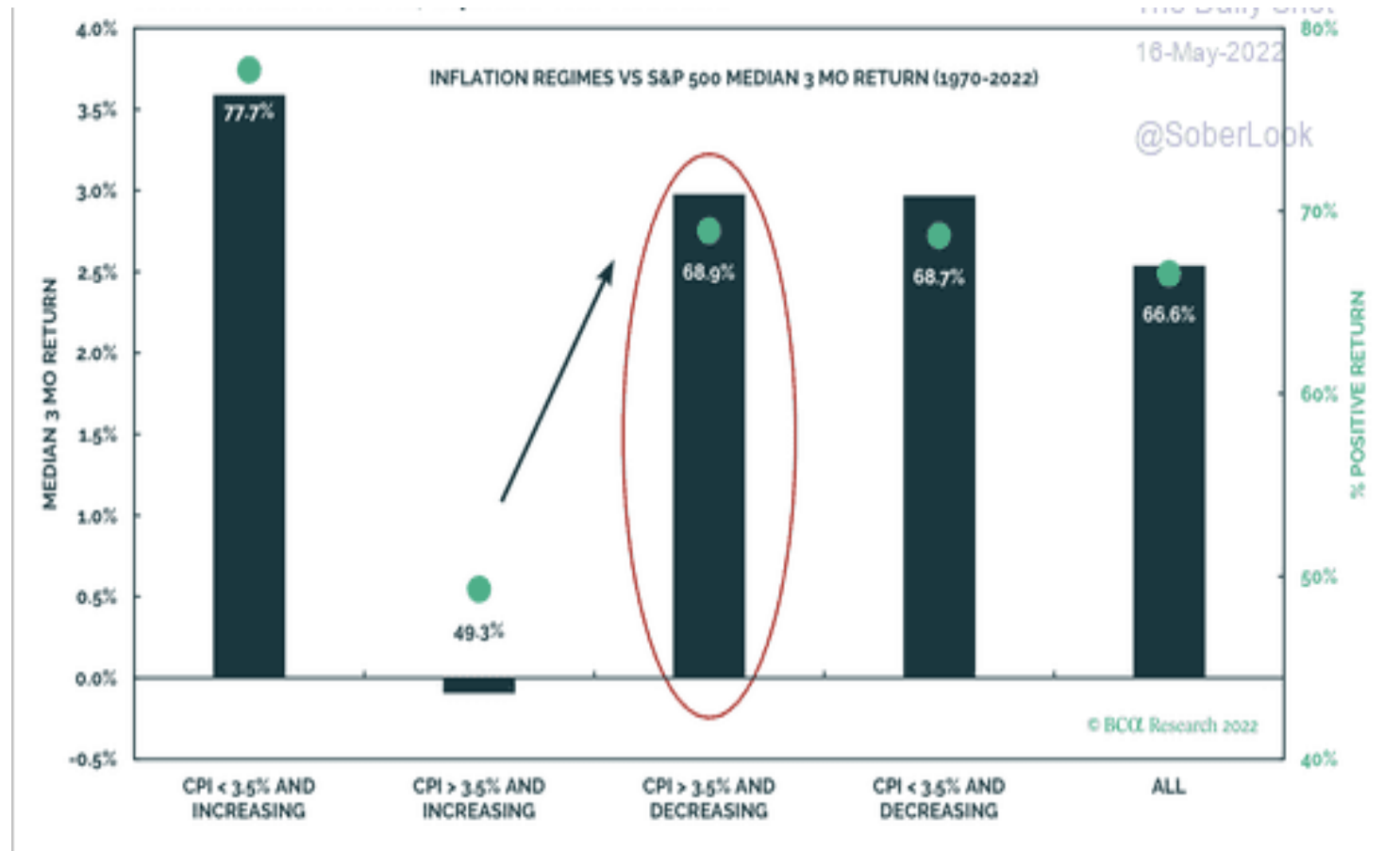
# Outlook

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## World:

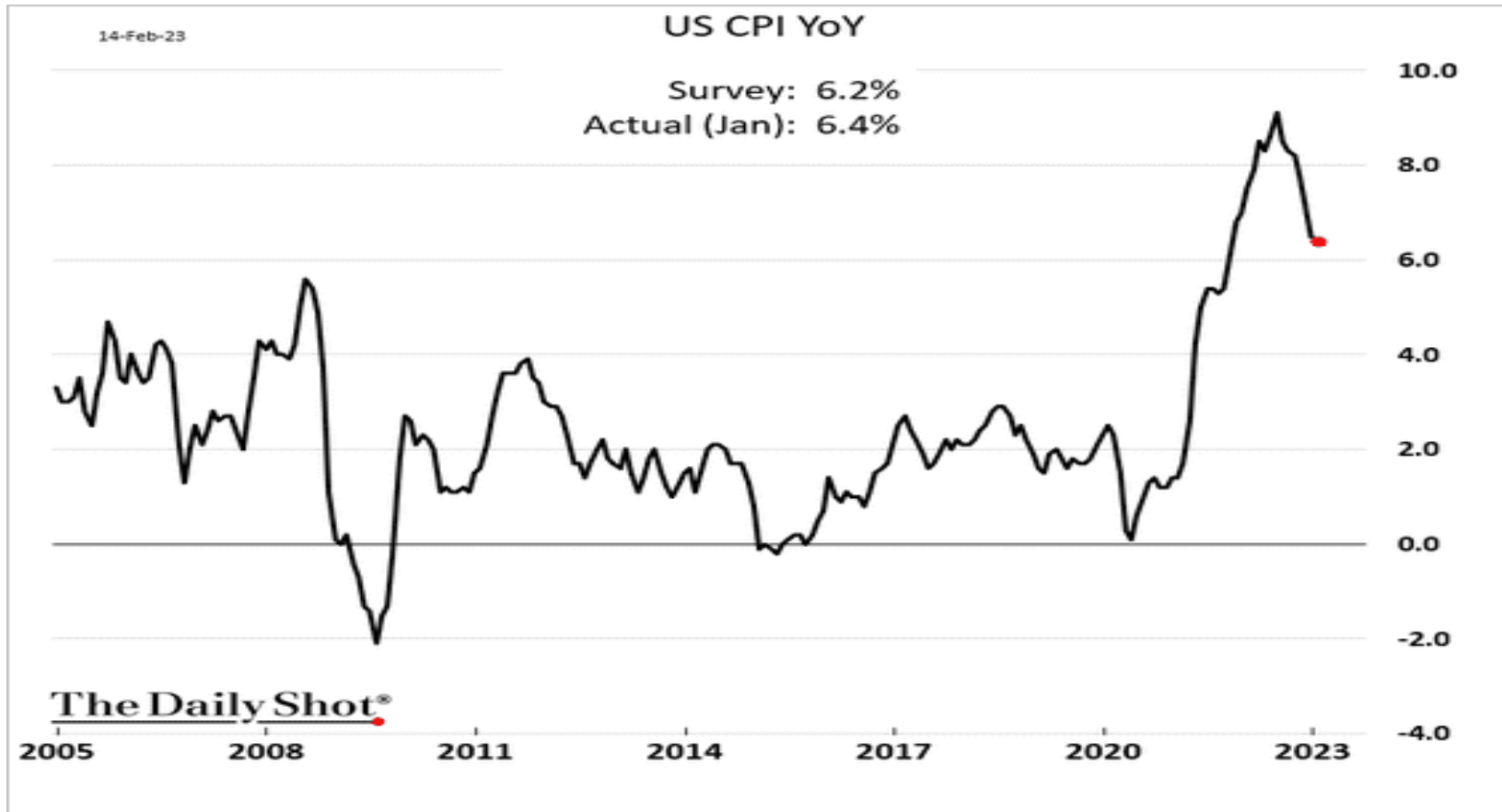
- Higher rates reduce consumer & manufacturing activity
- Soft landing/moderate recession
  - Employment & wage increases remain resilient
  - Inflation is moderating off multi-decade peak
- Equity markets fell in 2022 on the expectation of weakening economy
  - Growth indices remain expensive vs. Value
  - Small cap and Income stocks are supported by falling inflation & current valuations

# When Inflation Turns, Equities Rebound



Source: The Daily Shot

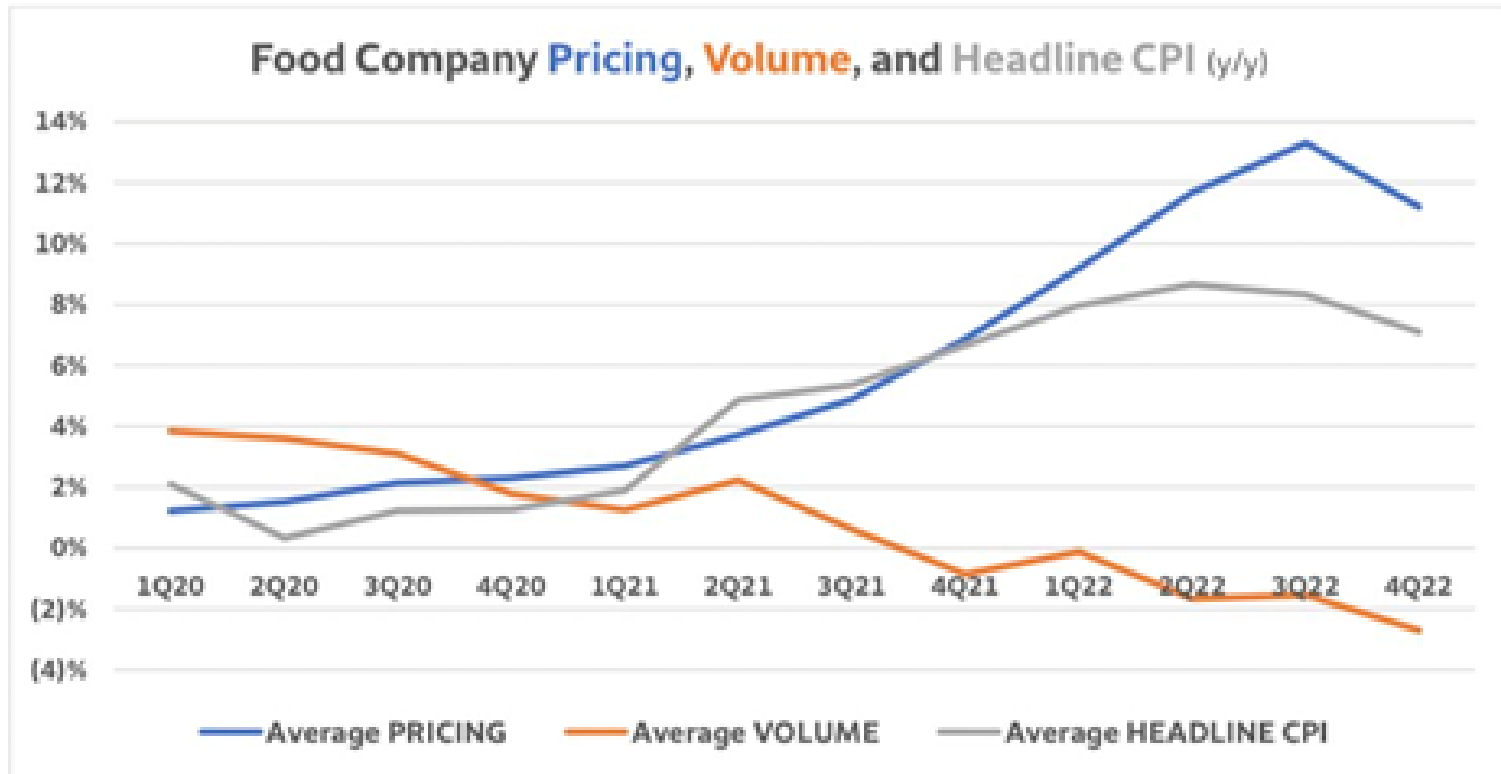
# U.S. Inflation Indicator - CPI



Source: The Daily Shot

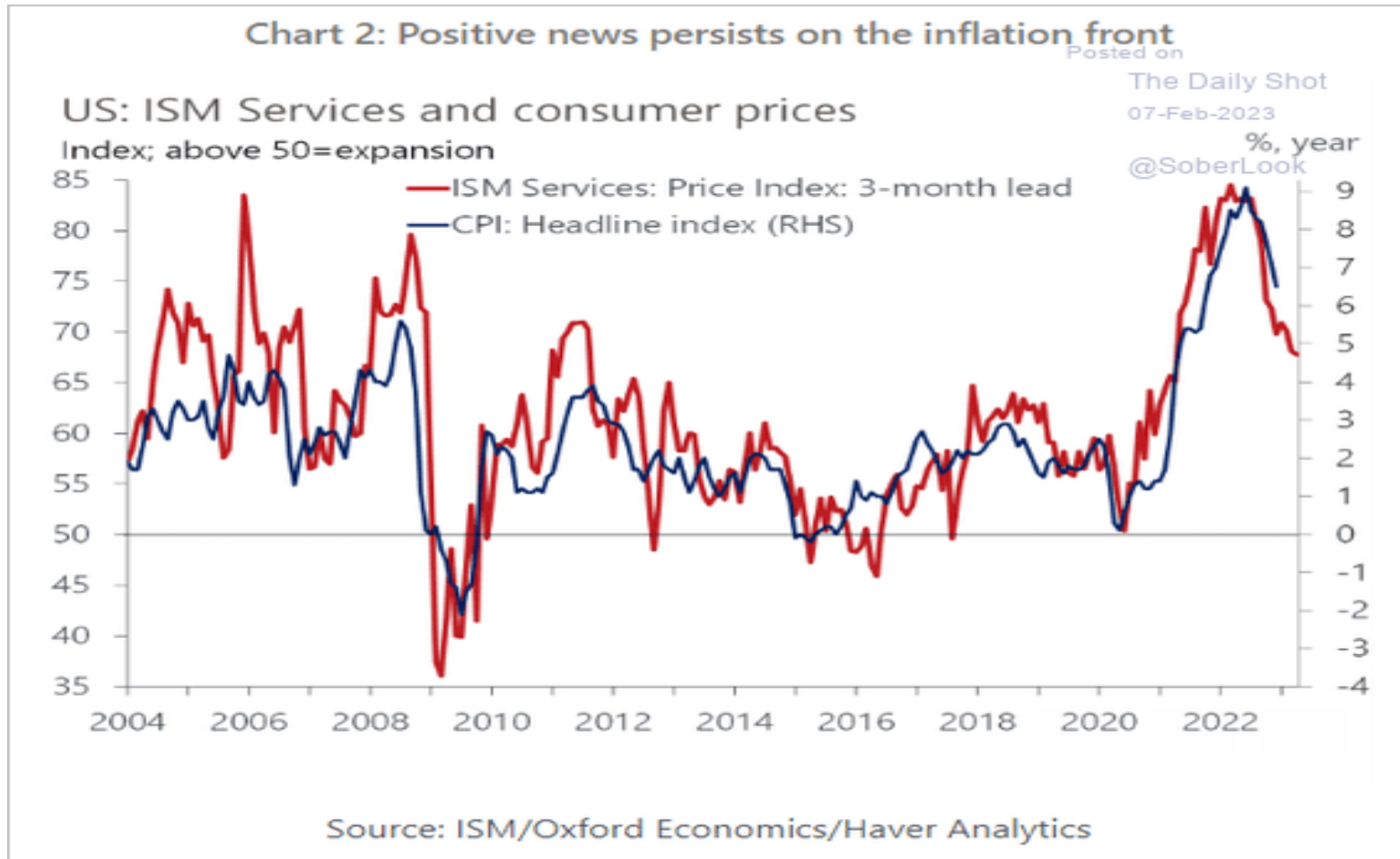
# Food Inflation Easing – Prices Drop as Volume Drops

Food Inflation >10%; Volumes Turn Negative



Source: RBC, Wells

# ISM Leads Inflation -Lower



Source: The Daily Shot

# Canada's Inflation

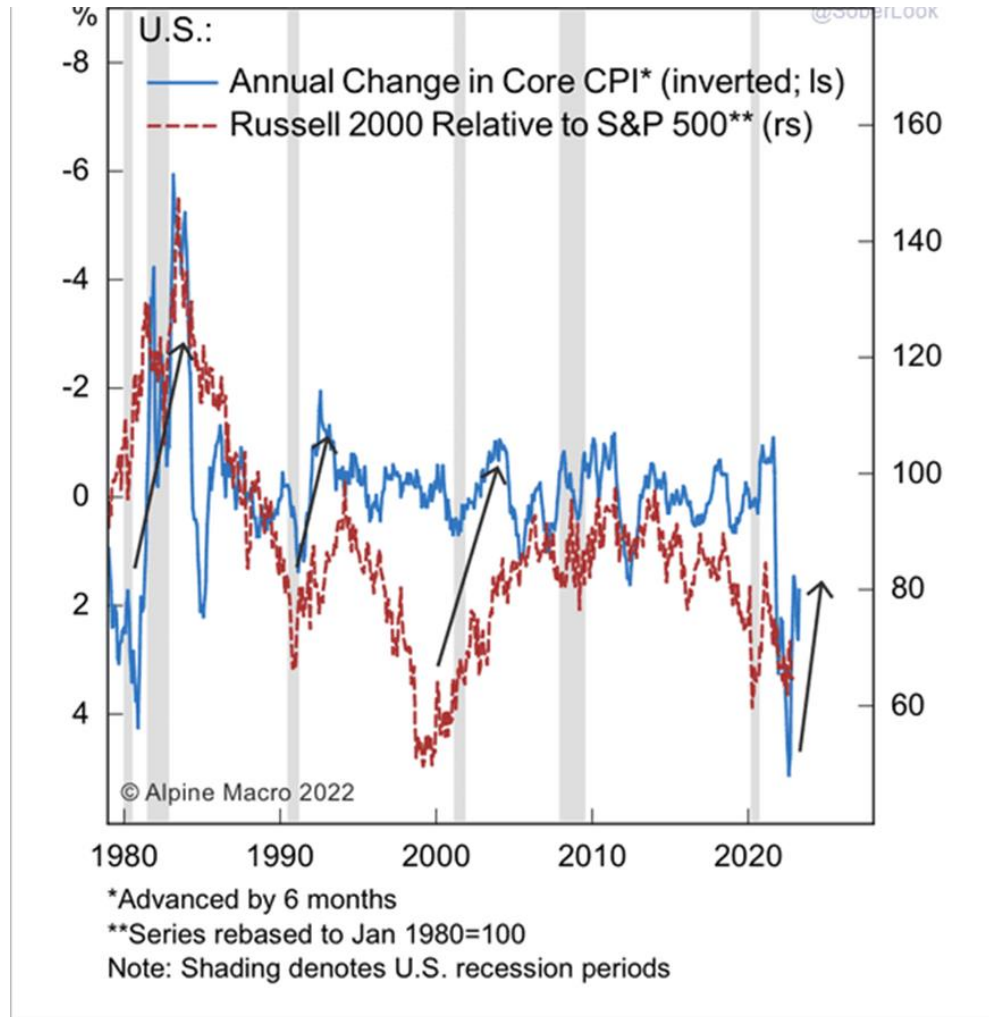


Source: The Daily Shot



# Inflation Moderates

## Stronger Environment for Small Caps



Source: The Daily Shot, Alpine Macro

# 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% Management Fee, Minimum: \$1,000
  - **A Class** Fund Code: BMI110, 2% Management Fee, Minimum: \$1,000
- SMA Min. Investment Small Cap: \$50,000, Large Cap Income: \$50,000
- Advisor Portal (barrantagh.com) Password: BMO1

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