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# **BARRANTAGH**

Investment Management

## **Update – Dec 7, 2023**

- Firm Update
- Small Cap Canadian Equities
  - Performance Review
  - Mandate Review



**A+ Program**

# Firm Update

## FIRM PROFILE

- 100% employee-owned investment managers since 1995
- 17 employees, firm ownership expanded to 7 employee-shareholders
- AUM: \$1.4 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

### Sub-Advisory News:

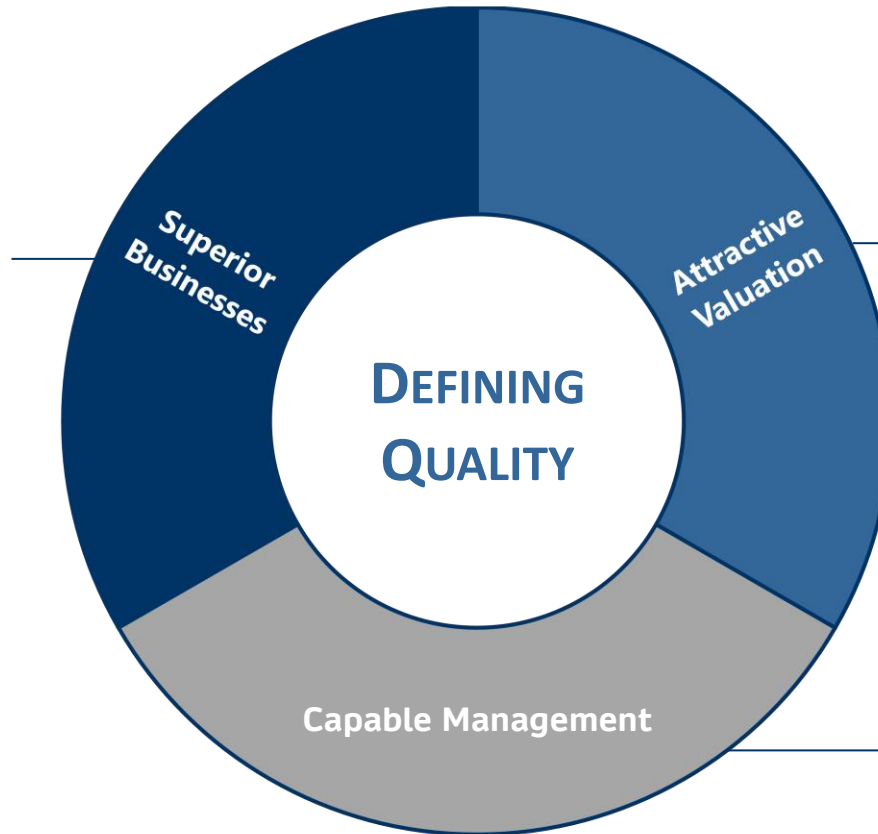
- Awarded new SMA mandate (Global Equities) continuing to broaden our offerings with 5 leading IIROC firms

# 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



## PERFORMANCE REVIEW

Small Cap Canadian Equities

# Performance Review

## 2023 Key Themes

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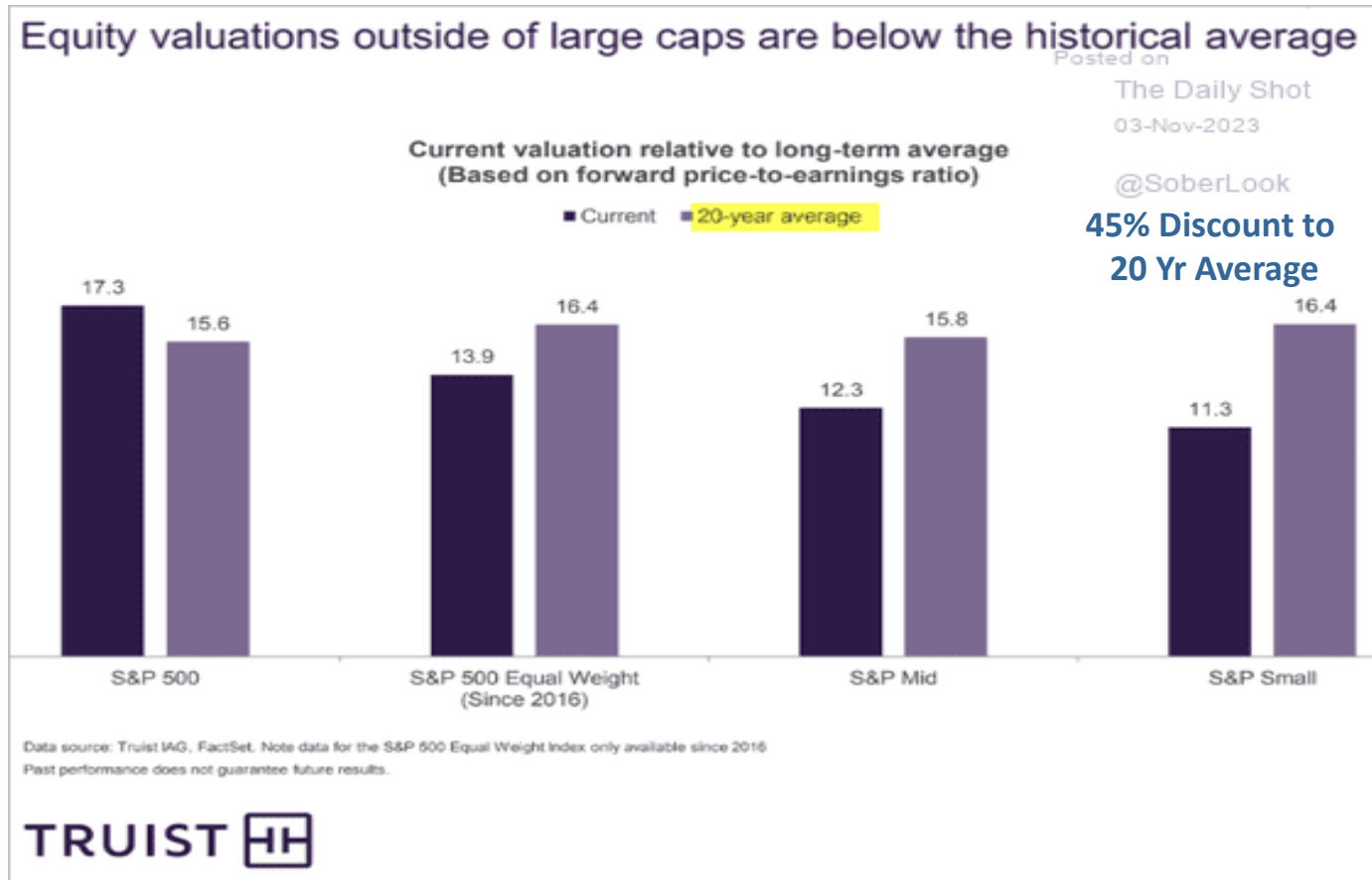
1. Small & Mid-Caps underperform large caps
2. Quality underperforms cyclicals. Higher yield sectors negatively impacted by higher rates
3. Cyclical stocks led the small/mid cap Canadian market in 2023 – similar to 2009 & 2016
  - i. Higher rates had less impact on cyclical companies where earnings are viewed on shorter time horizons (momentum)
4. Current environment has delivered negative outsized corrections relative to the scale of negative revisions – **strong Nov. earnings cycle has started to reverse the disconnect**

# Small Caps – Widest Valuation Gap Since Tech Bubble



Source: The Daily Shot

# Market Valuations



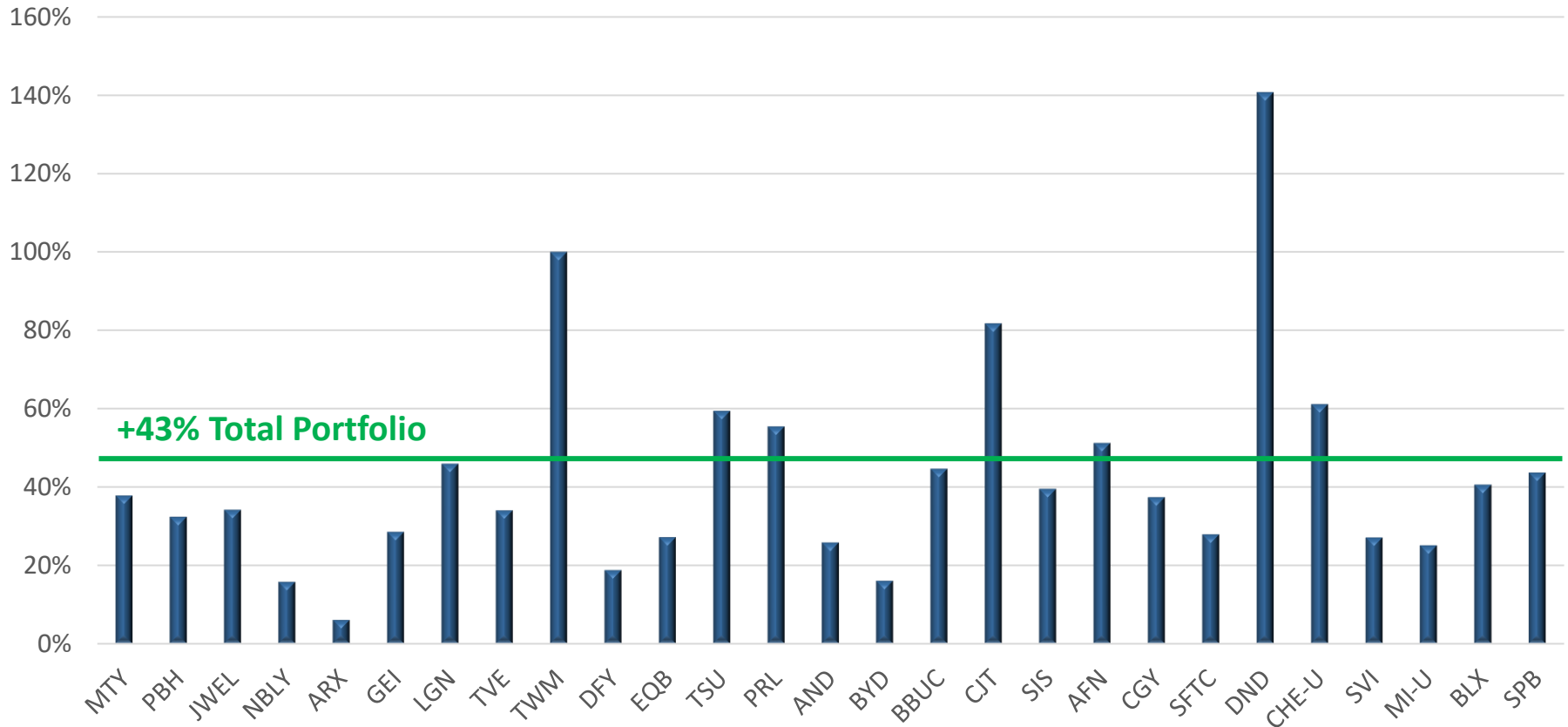
Source: The Daily Shot



# Small Cap Investing

Portfolio Holdings Current Valuations are Cheap Relative to Normal

## Upside to Normal Valuation Multiple



# Performance Update

## End Period Sensitivity

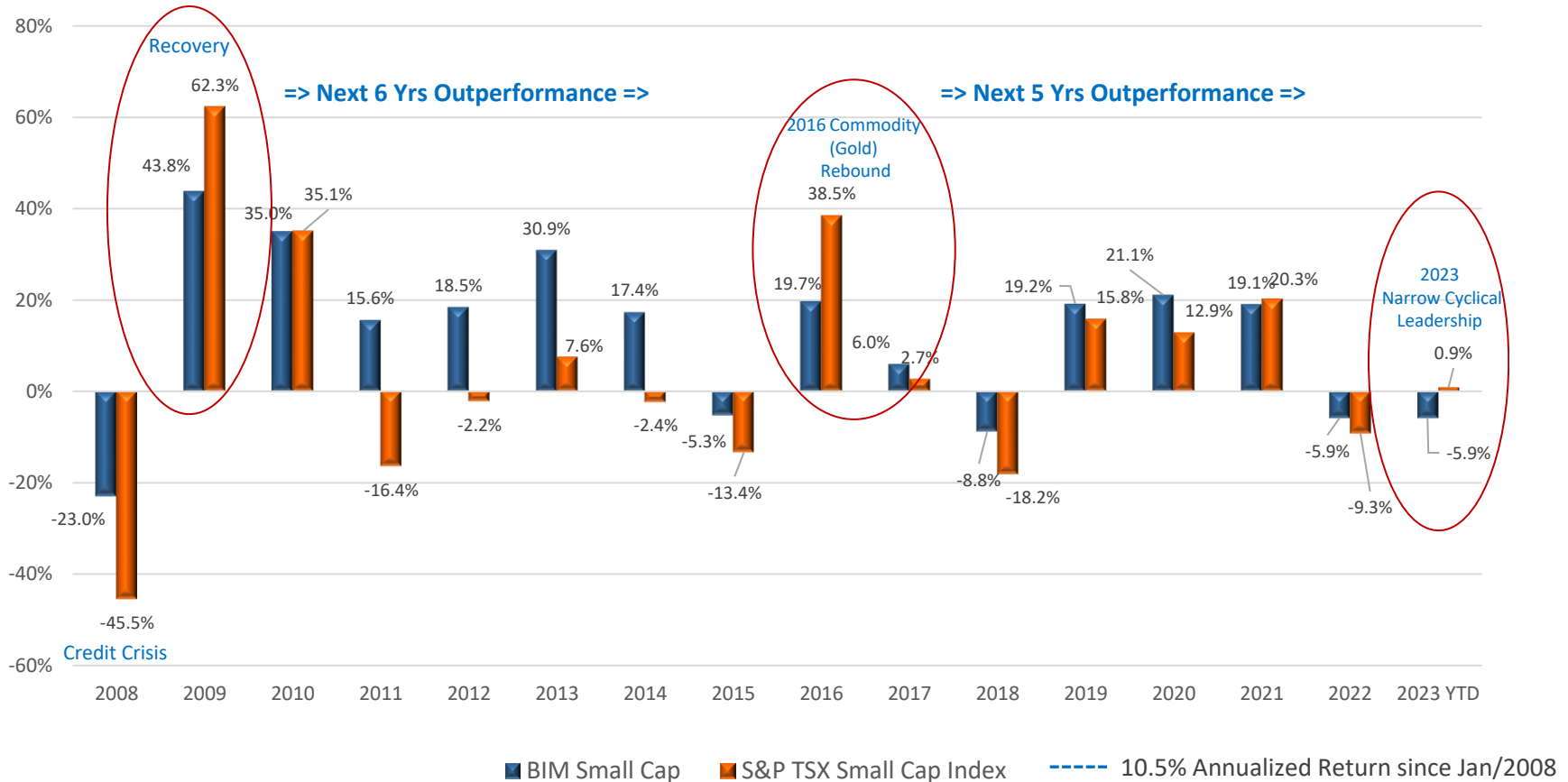
Short periods of performance can substantially impact 3 – 5 year annualized returns

	Annualized Returns	Qtr.	YTD	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	6 Yrs	7 Yrs	8 Yrs	9 Yrs	10 Yrs
<b>Oct 31 2023</b>	BIM SC	-12.0%	-12.5%	-9.7%	-9.7%	4.0%	6.3%	5.4%	4.9%	5.0%	6.5%	5.1%	6.8%
	S&P/TSX Small Cap Index	-8.9	-3.7%	0.6%	-7.7%	9.4%	6.4%	5.0%	2.5%	2.9%	5.6%	3.6%	3.4%
<b>Nov 30 2023</b>	BIM SC	-2.2%	-5.9%	-8.5%	-3.8%	4.1%	7.0%	7.6%	6.0%	6.0%	7.2%	5.9%	7.3%
	S&P/TSX Small Cap Index	-3.2%	1.0%	-0.9%	-3.7%	5.2%	7.0%	6.8%	3.2%	3.3%	6.5%	4.2%	3.8%

# Performance Update

## Investing over Market Cycles | Calendar Year Returns

Calendar Year Performance vs. Benchmark



# Canadian Small Cap Markets

## 2023 Oct. YTD: Narrow Cyclical-Led Market – Top 10 Contributors

% of Index	Top 10 S&P TSX Small Cap Contributors (YTD Oct 2023)		Contribution	Return 2023 YTD (%)	Index Weight (%)
	Celestica	AI Theme	0.9	93	0.7
	Athabasca Oil	Commodity Cyclical	0.5	71	1.2
	Eldorado Gold	Commodity Cyclical	0.5	33	1.6
	Dundee Precious Metals	Commodity Cyclical	0.5	42	1.1
	Chartwell Retirement	COVID Recovery	0.3	27	1.0
	MDA	Industrial Cyclical	0.5	79	0.5
	Denison Mines	Commodity Cyclical	0.3	43	0.8
	Hut 8 Mining	Crypto Mining	0.3	159	0.4
	Nuvista Energy	Commodity Cyclical	0.3	25	0.9
	Sabina Gold & Silver	Commodity Cyclical	0.3	60	0.2
8%	<b>TOP 10 Contrib.</b>		<b>4.2%</b>	<b>63%<sup>1</sup></b>	<b>8.3%</b>
92%	Remaining 275 Companies		-7.9%	-7.2% <sup>1</sup>	91.7%
100%	S&P TSX Small Cap Index		-3.7%	-3.7%	100.0

<sup>1</sup> Average Return

# Canadian Small Cap Equity

Next 19 Top Contributors are Also Cyclical– Top 10% of Companies in Index

% of Index	Top 10 S&P TSX Small Cap Contributors (YTD Oct 2023)		Contribution	Return 2023 YTD (%)	Index Weight (%)
8%	<b>TOP 10 Contrib.</b>		<b>4.2%</b>	<b>63%<sup>1</sup></b>	<b>8.3%</b>
	Kelt Exploration	Commodity Cyclical	0.2	57	0.6
	Badger Infra.	Industrial Cyclical	0.2	40	0.7
	Energy Fuels	Commodity Cyclical	0.2	32	0.9
	<b>EQB</b>	<b>Portfolio Holding 3.8%</b>	0.2	27	0.8
	Cascades	Commodity Cyclical	0.2	37	0.6
	Headwater Exploration	Commodity Cyclical	0.2	32	0.8
	<b>Tamarack Valley</b>	<b>Portfolio Holding 5.2%</b>	0.2	19	0.7
	Computer Modelling	Commodity Cyclical	0.2	60	0.4
	North American Construction	Commodity Cyclical	0.2	60	0.4
	Peyto Exploration	Commodity Cyclical	0.2	13	0.2
	Well Health	-50% from COVID peak	0.2	30	0.6
	Spartan Delta	Commodity Cyclical	0.2	5	0.6
	Wajax	Industrial Cyclical	0.2	57	0.3
	<b>AG Growth Int'l</b>	<b>Portfolio Holding 2.3%</b>	<b>0.2</b>	<b>23.9</b>	<b>0.7</b>
	Uni-Select	Consumer Cyclical	0.1	13	0.7
	Aecon Group	Industrial Cyclical	0.1	17	0.5
	Algoma Steel	Commodity Cyclical	.01	16	0.5
11%	CES Energy Solutions	Commodity Cyclical	0.1	35	0.5
	New Gold	Commodity Cyclical	0.1	27	0.7
19%	<b>Top 10% of Contributors</b>		<b>7.3%</b>	<b>42%<sup>1</sup></b>	<b>19.4%</b>
81%	Remaining 257 Companies		-11.0%	-10% <sup>1</sup>	80.6%
100%	S&P TSX Small Cap Index		-3.7%	-3.7%	100.0

<sup>1</sup> Average Return

# Canadian Small Cap Equity Portfolio

2023 YTD: **Fundamentals Disconnect** – Outsized Corrections vs. Small Negative Revisions

	Portfolio Holding	Comment	Revision	Stock Reaction
<b>Macro/Rates</b>	Neighbourly Pharmacy	Oct – offer to take private – 70% Premium		
	Dentalcorp	Higher Financing costs.		
	Cargojet	Slowdown in freight volumes		
	Boralex	Rate sensitive, renewables out of favour		
	Softchoice	Slowdown in IT spending		
<b>Both</b>	Dye & Durham	Housing activity slowdown, FQ4 missed mid-point of guidance	-4% (EBITDA vs consensus )	-34% (multiple contracted ~25% to 7x EBITDA)
<b>Negative Revisions</b>	Jamieson Wellness	Trimmed top-end guidance	-1% 2023 RE. & EBITDA, -5% on EPS	-22% (multiple contract 16% to 9X EBITDA)
	Storagevault	Slowing organic growth	Q2 FFO/share -3% miss Q2SPNOI +2% (down from +6%q/q, +14%y/y)	-17% (multiple contracted ~17% to 19X FFO)
	Calian Group	Q3 Earnings miss – IT segment	-14% on 2023 EBITDA guidance (fwd estimates down ~5%)	--20% (multiple contracted ~15% to 7.5X EBITDA)
	Trisura	Reinsurance receivable write-down (Feb) ~3.5% of total reinsurance recoverable	Fwd EPS estimates are +17% since pre-announcement	-28% (multiple contracted ~40% to 12X Fwd P/E)

# Canadian Small Cap Equity Portfolio

Nov. 2023 Earnings Cycle: **Fundamentals Reconnect**

TOP 10	Portfolio Holding	Stock Reaction
		Nov MTD
Technology	Dye & Durham	+71%
Financials	Propel Holdings	+39%
Staples	Jamieson Wellness	+34%
Industrials	Cargojet	+25%
Industrial	Brookfield Business	+21%
Industrial	Savaria	+18%
Utilities	Boralex	+18%
Real Estate	Minto Holdings	+13%
Real Estate	Storagevault	+13%
Financials	Trisura	+12%
BIM Small Cap Portfolio		+7.5%
S&P TSX Small Cap		+4.7%
SC Energy		-7.1%



## MANDATE REVIEW

Small Cap Canadian Equities



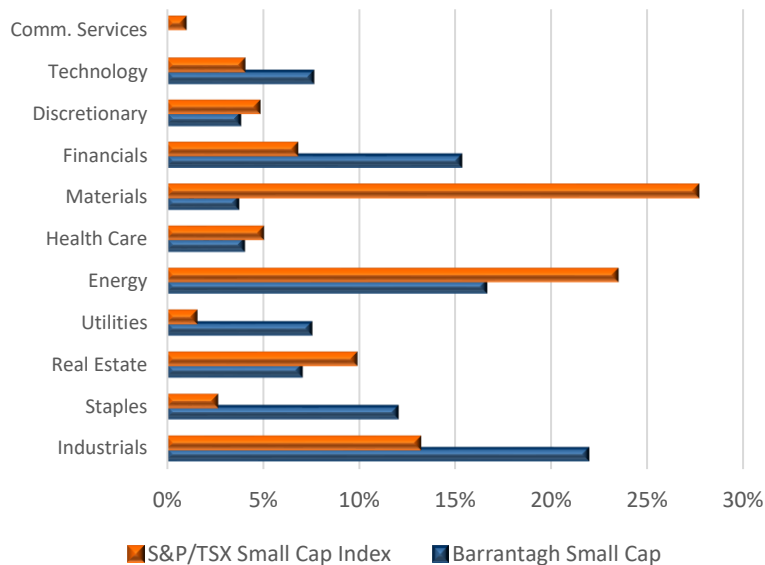
# Profile: Small Cap Canadian Equities

Portfolio at November 30, 2023

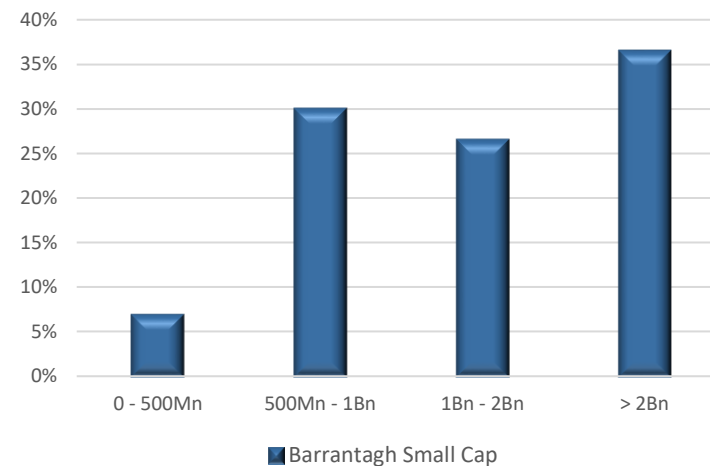
## CHARACTERISTICS

Number of Holdings	27
Avg. Market Cap	\$2.3 Bn
# Industry Sectors	10
Dividend Yield	2.7%

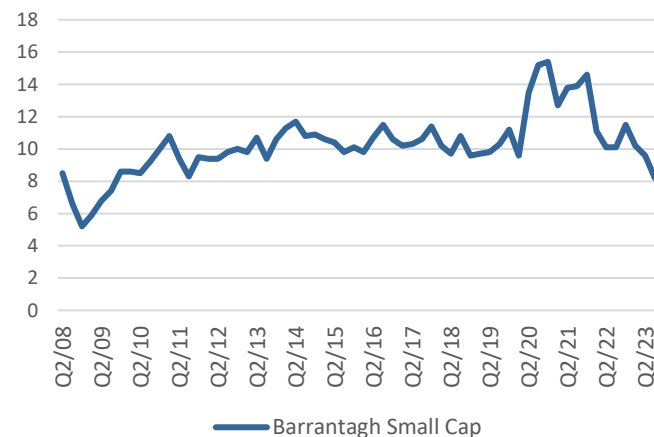
## Barrantagh Small Cap Industry Weight vs. Index



## Market Cap Exposure



## Historic P/CF



# Canadian Small Cap Equity Portfolio

Portfolio at November 30, 2023 | Q4 Transactions

	Portfolio Weight		Portfolio Weight		Portfolio Weight
<b>Consumer Discretionary</b>		<b>Industrials</b>		<b>Utilities</b>	
MTY Food Group	3.7%	AG Growth (+)	2.1%	Boralex (+)	4.0%
	3.7%	Boyd Group	5.5%	Superior Plus (+)	3.2%
<b>Consumer Staples</b>		Brookfield Business	2.9%		7.2%
Jamieson Wellness (+)	4.0%	Cargojet (+)	3.2%	<b>Materials</b>	
Neighbourly Pharmacy	3.7%	Calian Group	3.8%	Chemtrade Logistics	3.7%
Premium Brands	3.7%	Savaria (+)	3.0%		3.7%
	11.4%		20.5%		
<b>Energy</b>		<b>Real Estate</b>		Cash & Equivalent	4.5%
Arc Resources	3.6%	Minto Apartment REIT	3.1%	Total	100.0%
Gibson Energy (+)	3.5%	Storagevault Canada	3.6%		
Logan Energy	1.8%		6.7%	<b>SOLD</b>	
Tamarack Valley	4.1%	<b>Health Care</b>		<b>Enerflex</b>	
Tidewater Midstream	2.9%	Andlauer Healthcare	4.0%	<b>Dentalcorp</b>	
	15.9%		4.0%		
<b>Financials</b>		<b>Information Technology</b>			
Definity Financial	4.5%	Dye & Durham	3.3%		
EQB Group	3.9%	Softchoice	4.0%		
Propel Holdings	1.8%		7.3%		
Trisura Group	4.7%				
	14.9%				

ADD = (+)

# Summary

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Our core message as it relates to 2023 YTD performance:

1. Small Caps have lagged globally – risk-off trade on the higher rates for longer mantra
2. Quality has underperformed cyclicals –top 10 TSX SC index contributors are predominantly cyclicals contributing 4.2% to the index – the remaining 90% of companies detracted -8%.
3. Past cyclical rallies have occurred every 7 years, are short-lived & set up the portfolio for multi-year periods of positive alpha
4. Fundamentals disconnected since June 30<sup>th</sup> – outsized negative reactions to relatively small negative revisions.
5. November was a very different sentiment as CPI & bond yields have moderated and the market starts to look past “peak rates”. Led by a strong earnings season & a more supportive macro environment quality stocks are rebounding & cyclicals are lagging. Portfolio was **+7.5%** vs TSX SC **+4.7%** .

# 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)
- SMA Minimum: \$25,000
- Barrantagh Small Cap Canadian Equity Fund
  - **F Class** Fund Code: BMI105, 1% Mgmt Fee, Minimum: \$1,000
  - **A Class** Fund Code: BMI110, 2% Mgmt Fee, Minimum: \$1,000
- Advisor Portal (barrantagh.com) Password: RBC2
- Quarterly Distribution List

## Contact (Toronto):

Alan Daxner, Senior Vice President  
[adaxner@barrantagh.com](mailto:adaxner@barrantagh.com)  
(416) 864-7958

## Contact (Vancouver):

Robin Ferguson, Vice President  
[rferguson@barrantagh.com](mailto:rferguson@barrantagh.com)  
(778) 990-3445



## APPENDIX

# Small Cap Performance Post Large Cap Concentration

## Large Cap Market Concentration Precedes Small Cap Outperformance

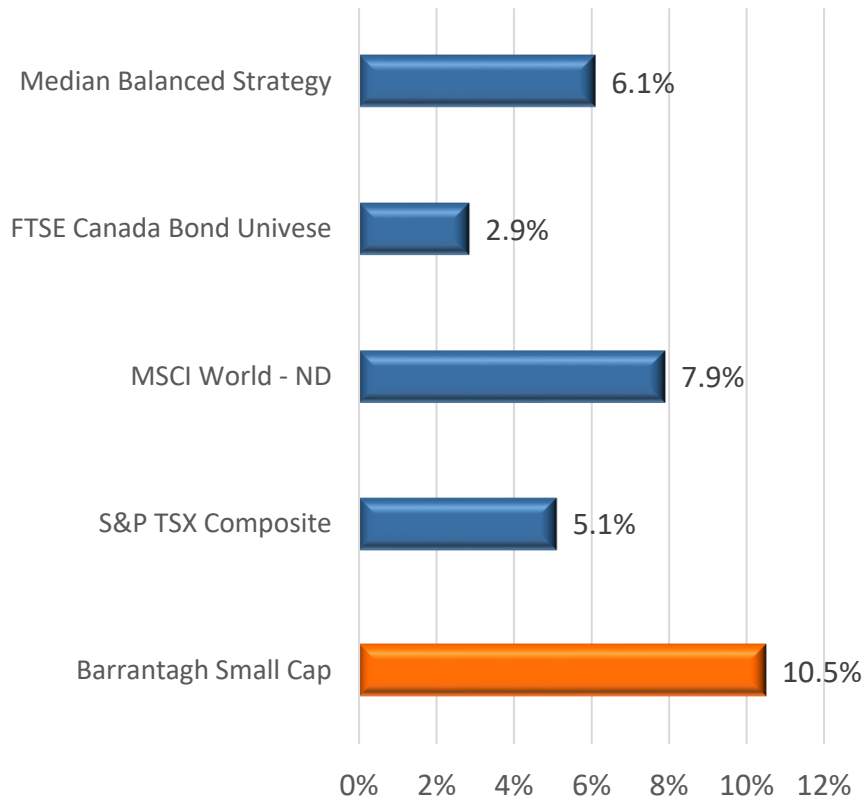


Source: The Daily Shot

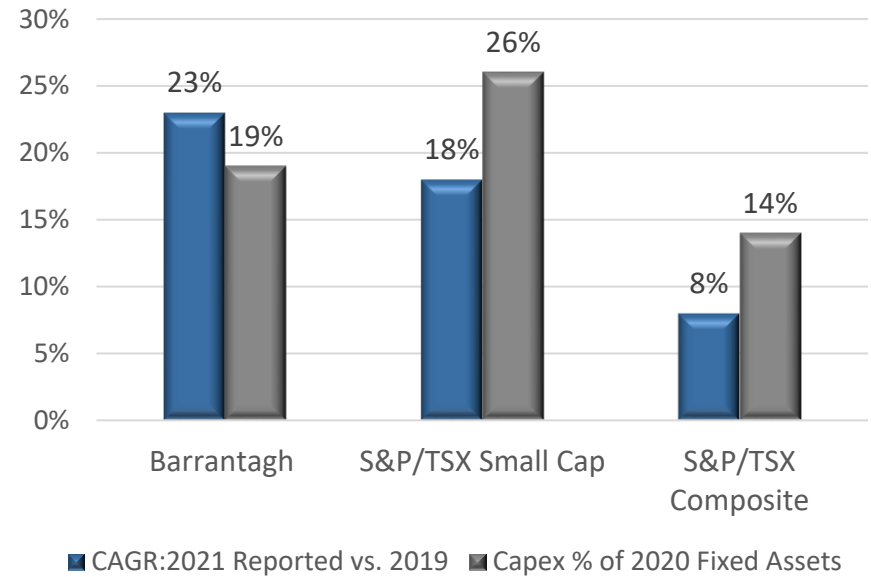
# Small Cap Investing

## Empirical Evidence of Faster Growth

Annualized Return (to Oct 2023) Since 2008<sup>1</sup>



Revenue Growth & Capital Investment

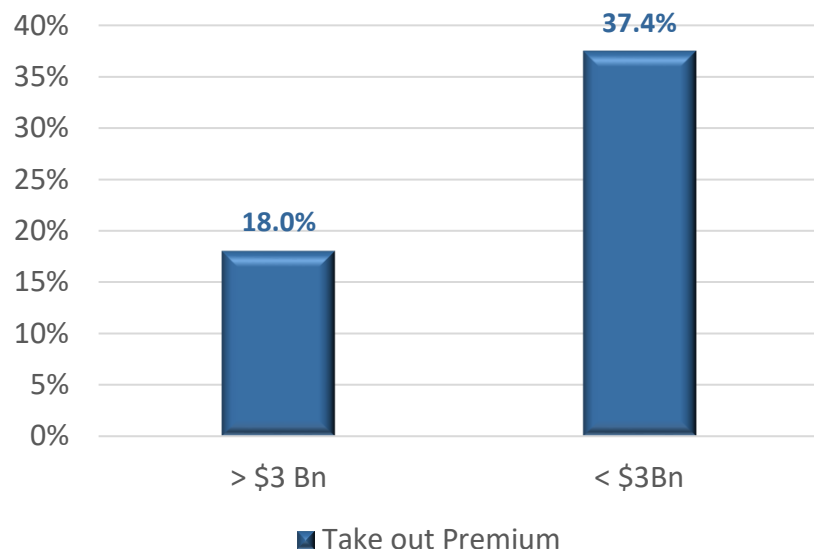


<sup>1</sup>Annualized Returns Since Barrantagh Small Cap Canadian Inception Jan/2008 through Sept./2022

# 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>
Neighbourly Pharma	10/2023	70%
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%

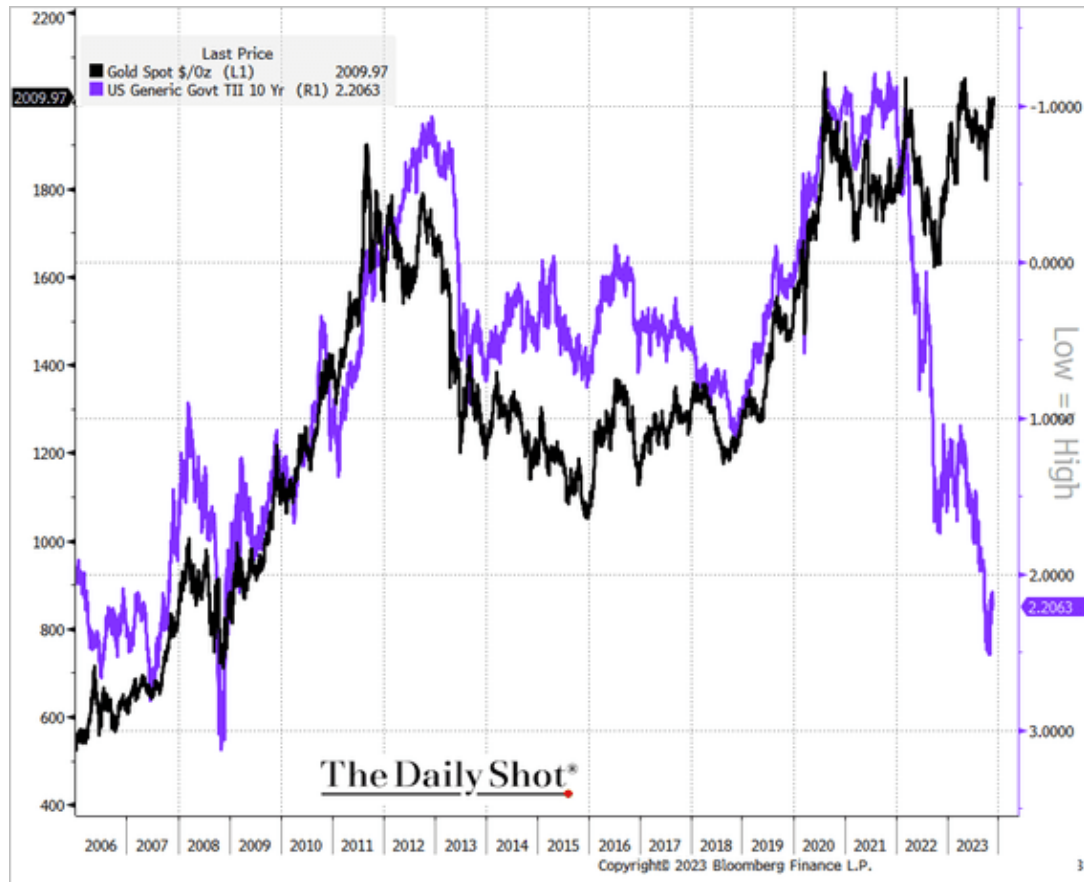
<sup>1</sup>Premium to 1 Month Average Price



# Gold Overvalued?

## Gold Prices Decouple From U.S. Real Yields

Gold Prices Should Fall in Sympathy with Higher U.S. Real Yields

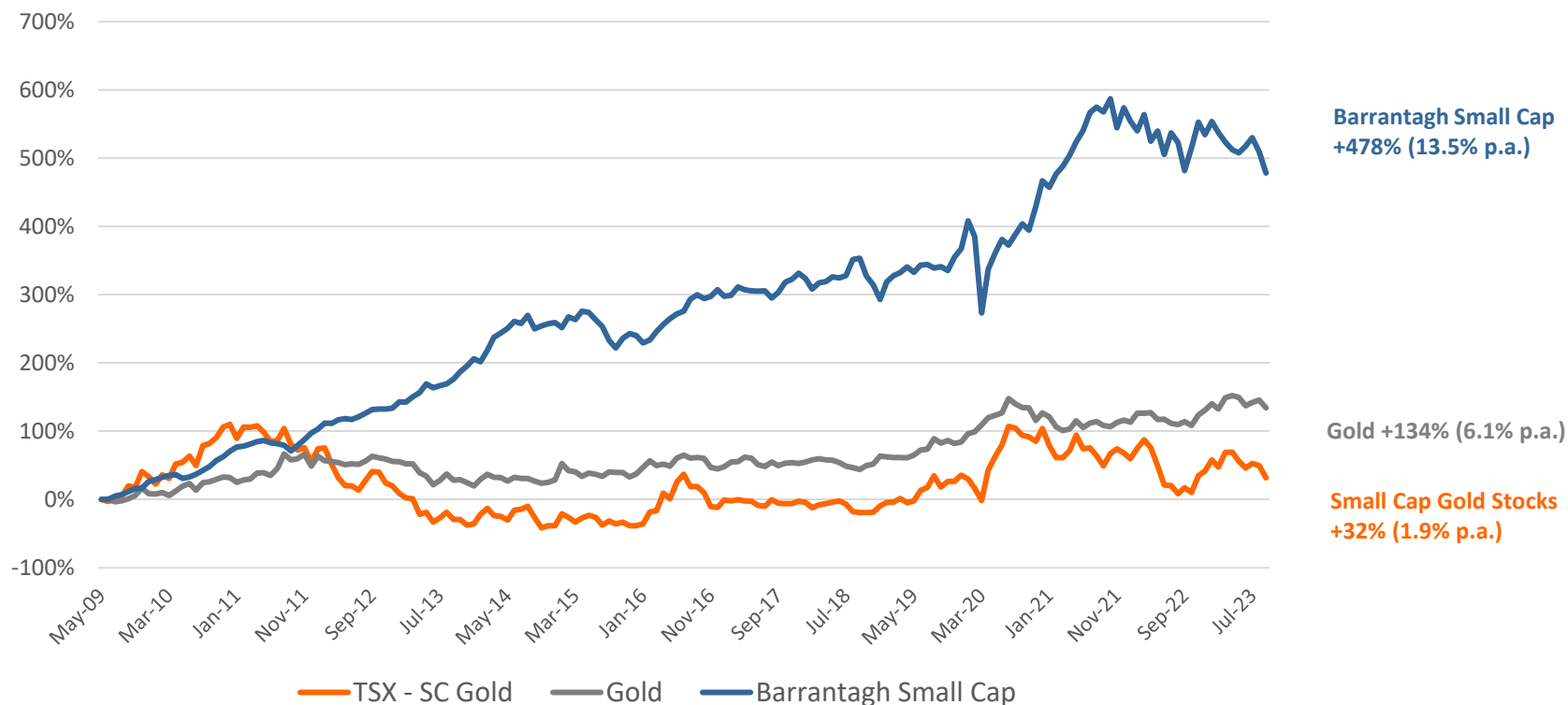


Source: The Daily Shot

# Small Cap Canadian Equity Mandate

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

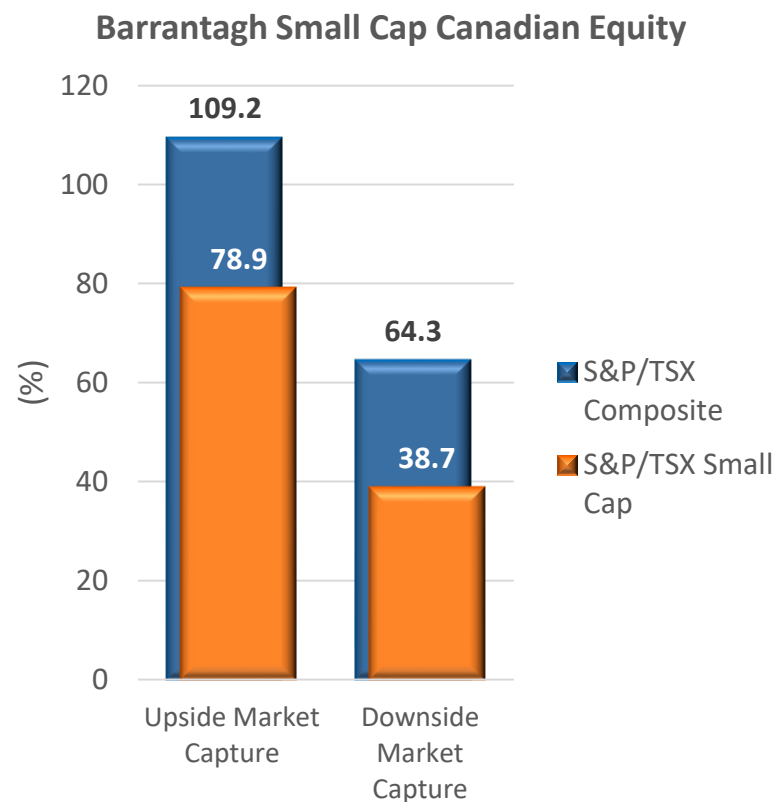
### Cumulative Returns ~ 14 Years to September 30 2023



# Small Cap Canadian Equity

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

Sept. 30, 2023	Barrantagh Small Cap Cdn. Equites <sup>1</sup>	TSX Small Cap	Median
Annualized Return	10.9%	2.4%	7.4%
Standard Deviation	13.7%	20.9%	18.7%
Sharpe Ratio	0.7	0.1	0.4



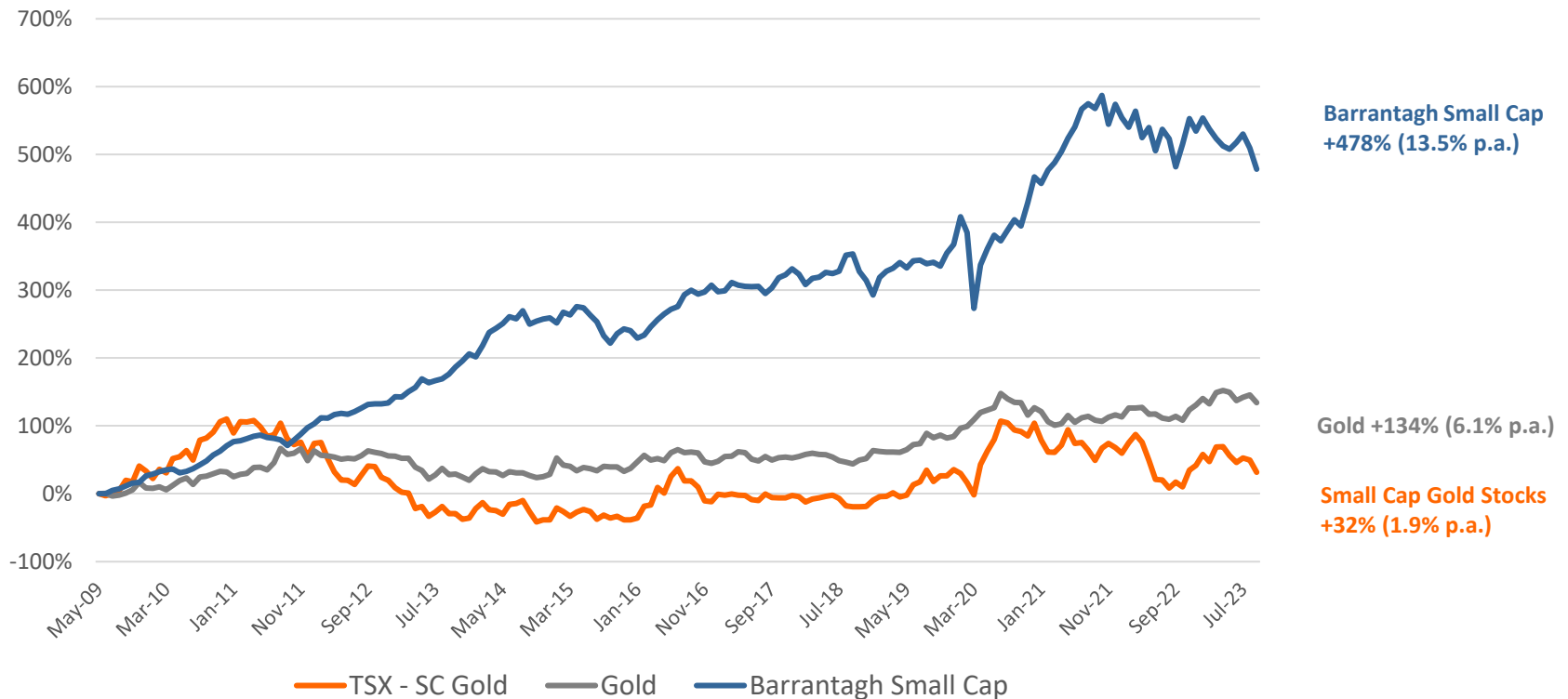
<sup>1</sup> Since Inception Jan. 1, 2008

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

# Small Cap Canadian Equity Mandate

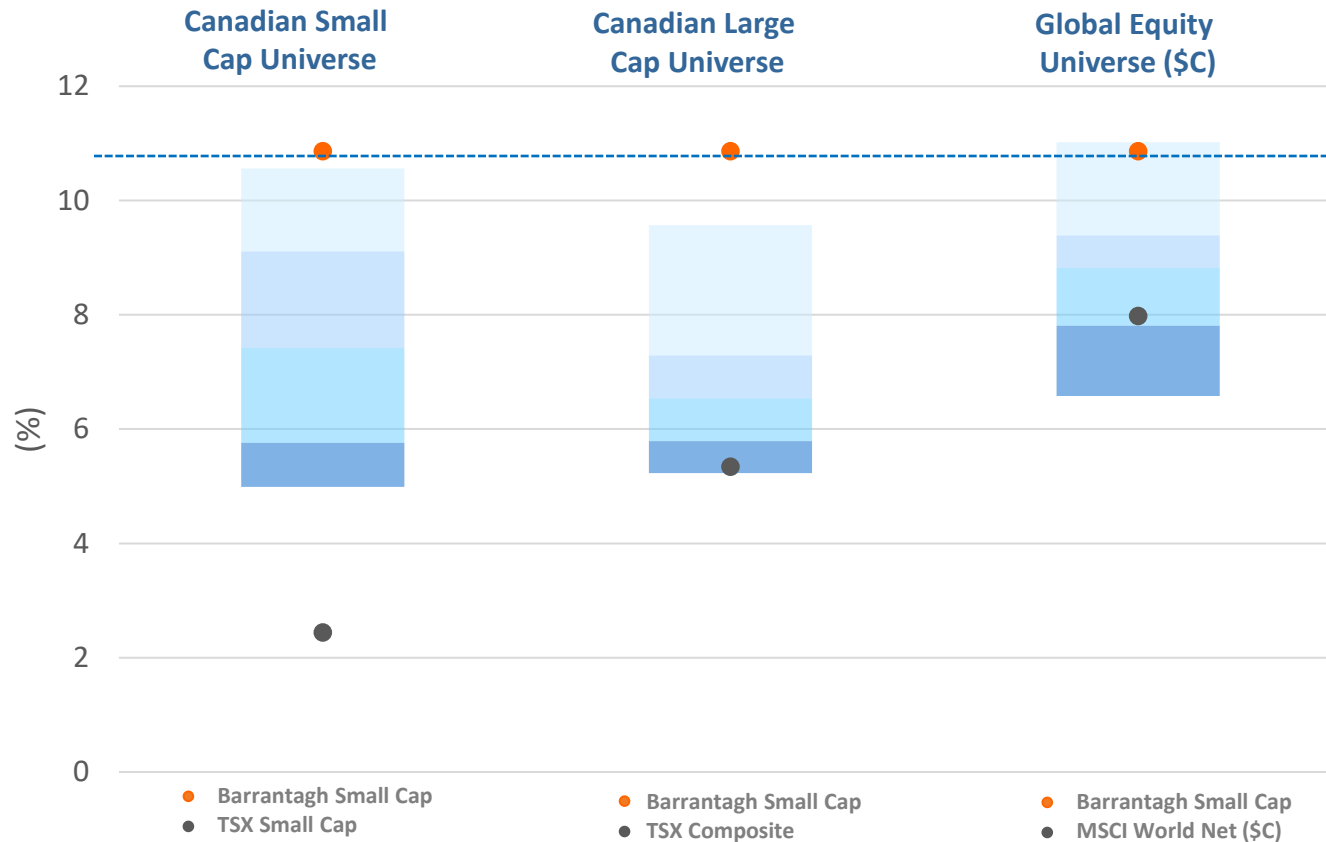
## Junior Gold Miners: Underperforming/Volatile & Poor Commodity Tracking

### Cumulative Returns ~ 14 Years to September 30 2023



# RETURNS: Small Cap Canadian Equities

Strong Performance vs. Large Cap Cdn & Global Equities (for Periods Ending Sept 30, 2023)



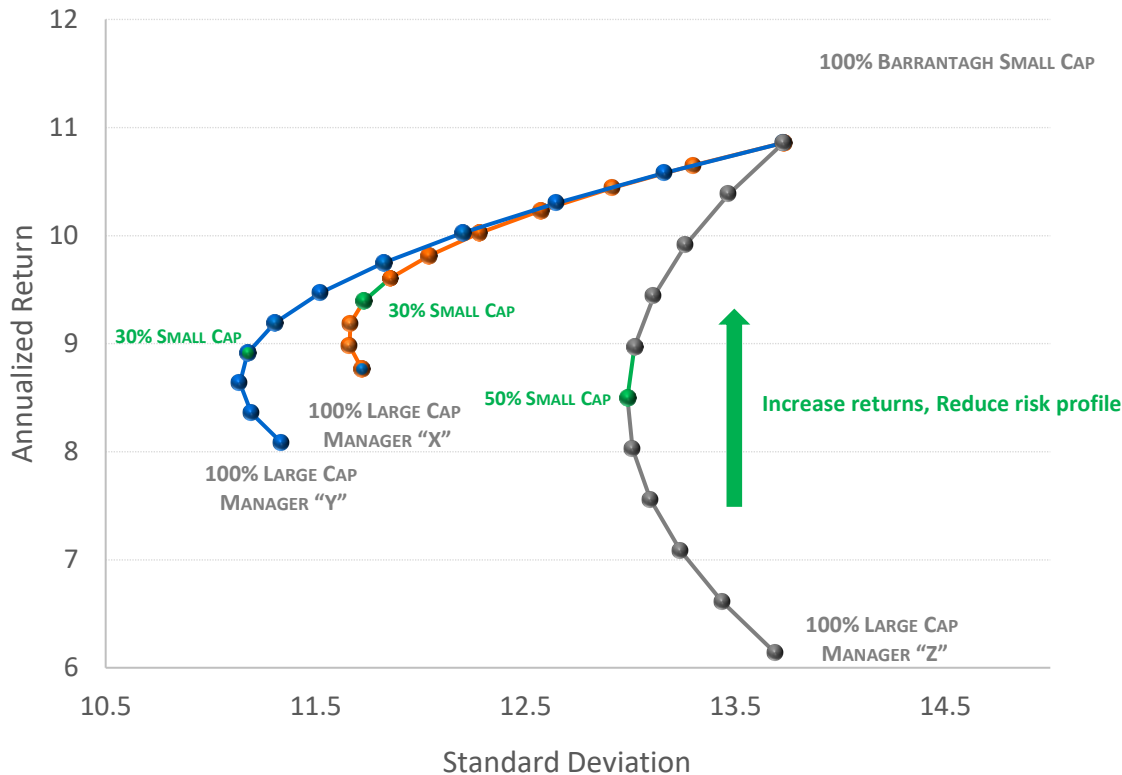
Strategy Inception Date: Jan. 1, 2008

# 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 Sept. 30, 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:

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

Portfolio Standard Deviation( $\sigma_p$ )

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

# BARRANTAGH

## Investment Management

100 Yonge Street, Suite 1700  
Toronto, Ontario M5C 2W1  
(416) 868-6295  
[www.barrantagh.com](http://www.barrantagh.com)