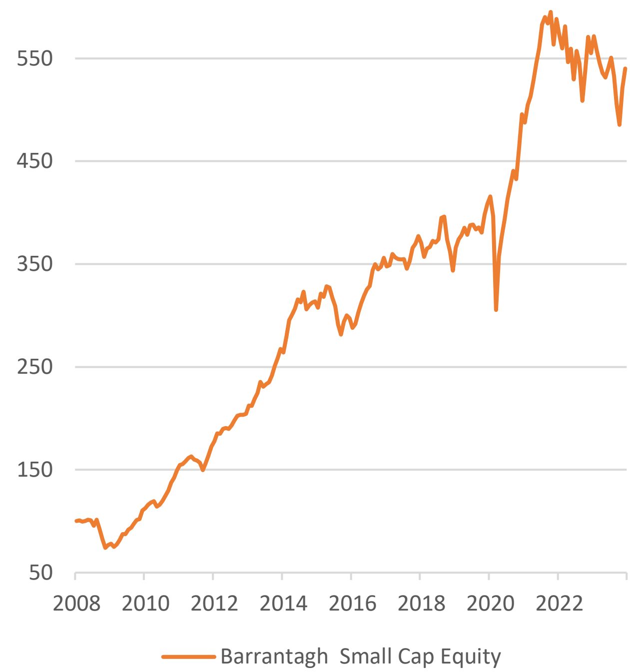
Barrantagh Small Cap Canadian Equity Strategy

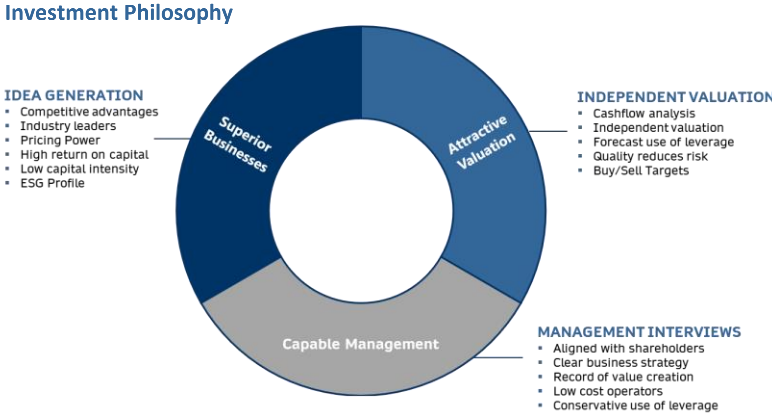
BARRANTAGH
Investment Management

Barrantagh Investment Management Inc. is a bottom-up, value driven investment manager with over 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:

Investment Growth (CDN$) *
Time Period: Jan 1 2008 to Dec 31, 2023



Investment Philosophy

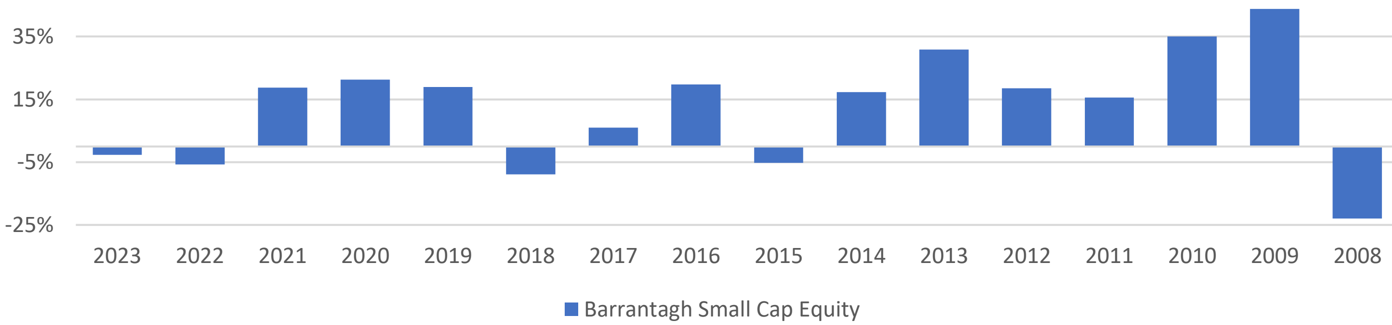


Portfolio Characteristics
Current number of holdings: 27
Current Yield: 2.2%
Average Market Capitalization: $2.4 Billion
Diversification across 10 of 11 Sectors

Trailing Returns *

As of December 31, 2023	YTD	1 Year	2 Years	3 Years	4 Years	5 Years	6 Years	7 Years	8 Years	9 Years	10 Years
Barrantagh Small Cap Equity Portfolio	-2.7%	-2.7%	-4.2%	2.9%	7.2%	9.5%	6.2%	6.1%	7.7%	6.2%	7.3%

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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Top 10 Holdings
Portfolio Date: December 31, 2023

	Portfolio Weight %
Boyd Group Services Inc.	5.6
Definity Financial Corp.	4.4
Boralex Inc.	4.4
Trisura Group Ltd	4.3
EQB Inc	4.2
Jamieson Wellness Inc.	4.1
MTY Food Group Inc.	3.9
Andlauer Healthcare Group Inc.	3.9
Storagevault Canada Inc.	3.8
Brookfield Business Cl A	3.8

Current Portfolio – Equity Sectors
Portfolio Date: December 31, 2023

Fourth Quarter Commentary

After starting the fourth quarter with negative momentum, risk markets bounded higher to close out the year. Supportive economic data of cooling inflation and signalling from central banks raised prospects for an end to the coordinated interest rate hikes that defined the last eighteen months. Interest rates fell, interest rate sensitive securities got bid higher and a relief rally ensued to end 2023.

The portfolio outperformed the benchmark during Q4 on the strength of industrials (strong security selection), consumer staples (overweight allocation) and financials (overweight allocation). This was partially offset by detraction from materials (underweight, junior miners up strongly).

Despite the welcome lift it was a challenging year for Canadian small caps. We have written previously about the poor breadth of this market and smaller companies being left behind. Though breadth improved during Q4/23, performance for the year was bifurcated by market cap size. Of the ~460 Canadian equities we track the median return of the top quartile (largest companies) was +12%, second quartile +3%, third quartile +2%, and bottom quartile (smallest companies) -13%. Over the last year, investors in smaller cap equities were battling strongly against this tide.

One example of a small/mid-cap that has persevered against this sentiment headwind is Equitable Group (EQB), which has grown to be the seventh largest Schedule I bank in Canada. The self dubbed “Challenger Bank” outperformed strongly during the year (+57%) versus the bank sector (+9%) and has also significantly outperformed over three years (+22% CAGR versus +11% for bank stocks). Driving these strong returns for shareholders has been outstanding growth in the business. In 2023, EQB delivered double-digit EPS growth and return on equity of 17%, while larger banks fought to hold flat or mitigate declines. EQB navigated the rising rate environment well; their digital first strategy with no physical locations helped them be competitive on costs, while more diversified funding sources and keen underwriting did a solid job protecting net interest margins.

The flip side of the lagging performance from small cap equities is the highly attractive opportunity ahead. Looking at current valuations for this same grouping of Canadian stocks the largest group currently trades at a 5% discount to their five-year average, the next largest trades at a 17% discount, the third largest trades at a 20% discount, and the smallest group trades at a 32% discount. Simple mean reversion implies stronger future returns for smaller stocks. Further, as interest rates steady and eventually go lower, this previous headwind on valuation and deal activity will become a tailwind for smaller cap equities and free cash flow growth should reaccelerate driving compounding intrinsic value for our Portfolio holdings.