

TRADING ACTIVITY

BARRANTAGH INVESTMENT MANAGEMENT Global Equities

In the first quarter, the global index performance remains buoyed by the technology sector, driven by robust growth trends in artificial intelligence (AI) that have instilled significant confidence in investors. While the rapid expansion of AI has exceeded expectations, there has been a recent diversification in equity returns towards undervalued and cyclical stocks. This broadening can be attributed in part to global central banks' anticipation of inflation stabilizing within an acceptable range, thereby prompting a shift towards monetary policies featuring interest rate cuts in 2024. The resilient job market has effectively weathered peak inflation and interest rates extremely well thus far. Furthermore, with consumer and corporate demand expected to benefit from a lower interest rate environment, the employment situation should remain healthy. Canadian markets also benefited from the above-mentioned broadening theme with positive impacts from many industries though none greater than the Energy sector which had the largest overall contribution.

Mergers and acquisitions activity has shown considerable strength this quarter, signalling a willingness among corporations to take on risk and adopt a more proactive growth strategy. Additionally, IPO activity and debt issuance have demonstrated noteworthy strength this year,

indicating a robust recovery from several quarters of subdued activity. While these indicators can be subject to volatility and reversals if economic conditions deteriorate, the current momentum highlights a positive trajectory following a period of relative stagnation. From an investment perspective, our Quality Value strategy prioritizes companies with disciplined capital allocation practices and a proven track record of successful acquisitions. Management teams with this expertise are well-positioned to capitalize on the current environment and drive shareholder value.

The global freight industry is in a period of transition. The initial post-pandemic surge in goods demand has faded, with volumes declining as consumer spending shifted towards services and companies reduced excess inventory. However, this trend is expected to reverse in 2024. A strong labor market should lead to renewed demand for consumer goods, while companies are simultaneously nearing the completion of their destocking cycles.

Such developments create a favorable environment for freight demand, particularly benefiting railroads. Not only are railroads a cost-effective and eco-

friendly means of transportation, but they also stand to gain from the trend towards local and friend-shoring within North America. Notably, our investments in Union Pacific and CPKC railroads boast networks that reach into Mexico, which positions them to capitalize on the recent surge in exports to the US from that country.

Buys

Rentokil (RTO1)

Rentokil is the largest pest control company in an industry that grows 4-5%/year on average. The Terminix acquisition is generating significant synergies so far. Margin target implies 300 bps improvement over the next 3 years driven by significant synergies from closing Terminix acquisition over a year ago. Short term headwinds in North America residential pest have caused stock to decline, but management is investing to turn this around. The company is less exposed to cyclicalities of economy and trades at a cheap valuation.

Sysco (SYY)

Sysco is the global scale leader in foodservice distribution to restaurants and non-restaurant sectors that include healthcare, government, education, and hospitality. The company has chewed through several headwinds that includes food disinflation impacting the sales line, labour shortages/disputes, supply chain investments that limited margin expansion, and macro pressures. We believe that Sysco is now at the cusp of an inflecting volume line, boosted by local case acceleration, strong exit velocity out of last quarter, a step up of sales rep headcount, and an updated sales compensation structure. Market share potential, the ongoing preference for “Food Away From Home”, and a recession resilient model drives the long-term thesis for Sysco.

Sells

International Flavours and Fragrances Inc. (IFF)

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