

TRADING ACTIVITY

BARRANTAGH INVESTMENT MANAGEMENT Canadian Small Cap Equities

Positive momentum for equity markets continued into 2024, with risk appetite broadening from the narrower group of winners in the previous year. Supportive economic conditions and normalizing inflation has kept sentiment towards equities strong, though expectations for rate cuts have been meaningfully trimmed since the start of the year. Small caps performed well, aided by a strengthening commodity backdrop and a surge in resource names.

Despite positive performance from the Portfolio, it lagged the benchmark during the period, which was led by energy, materials (gold/mining) and health care (cannabis). Our energy holdings kept pace with the benchmark but our underweight detracted from relative performance. The Portfolio does not have exposure to golds and cannabis stocks given the more speculative nature of these sub-sectors and the poor historical track record of value creation.

Given the strength in resources during the first quarter the combined weight to energy and materials grew to 52% in the small cap benchmark. This outsized weight in highly cyclical sectors can drive significant volatility in benchmark results. Our quality value style drives a “commodity-light” approach and provides lower risk exposure to small cap equities, which can lag during periods of resource strength. However, historically this approach has produced superior full-cycle returns by protecting capital in market drawdowns. The

Portfolio has exposure in the energy sector where we see high quality businesses with top tier assets and strong management teams.

One area where we saw broadening of performance during the period was in the information technology sector. Our holdings, which we would describe as “value tech” (pay dividends, attractive valuations) were out of favour last year in a rising interest rate environment. Dye & Durham (DND) was impacted by a slow real estate market and higher borrowing costs, while Softchoice (SFTC) navigated moderated IT spending from their customers, specifically around hardware sales. Today, some of these headwinds have shifted to tailwinds. DND has used more amenable credit markets to opportunistically refinance debt and is seeing pent up demand building for housing transactions. SFTC grew through the market slowdown due to strength in their software/cloud solutions and signaled to the market strong free cash flow expectations ahead with a sizable special dividend yielding 27%. Both stocks performed quite strongly during the first quarter.

After two strong months of outperformance to start the year, the month of March experienced strong appreciation in mining stocks, while more rate-sensitive stocks moderated, which detracted from quarterly relative performance. Notwithstanding this dynamic, the overall thesis of broadening equity market participation and improving risk sentiment

towards small caps remains positive. The valuation opportunity continues to look quite compelling for smaller cap quality-value names and we see very attractive risk/reward embedded in the Portfolio.

BUYS

Mainstreet Equity (MEQ)

MEQ is an acquirer and landlord of mid-market apartments in Western Canada. Long term value creation track record of acquiring underperforming assets and repositioning. Secular tailwinds from housing shortage and population growth trends. Attractive valuation versus Apartment REIT peers.

SELLS

Neighbourly Pharmacy (NBLY) – private equity takeout completed in March/24 by Persistence Capital.

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