

TRADING ACTIVITY

BARRANTAGH INVESTMENT MANAGEMENT Canadian Small Cap Equities

It was a bifurcated market to start 2025, as increasing tariff threats and protectionist policy in the United States has raised fear and uncertainty and demand for safe havens and liquidity. For Canadian small caps, this has meant general selling pressure – often agnostic to the quality or underlying exposure of the business – and an increasingly large valuation gap to similarly exposed larger cap names.

One area benefiting from the fear trade in the first quarter is junior mining equities, largely exposed to gold. These stocks were up 24%, versus the rest of the small cap benchmark -7%. This was a continuation of a trend that has dominated Canadian small caps over the trailing twelve months with the junior miners +44% on average compared to -1% for everything else. This has been a large relative headwind for the portfolio as we avoid exposure to the gold mining sector due to the high cyclicity and poor long term track record of returns. Like all things cyclical the music will stop and the parabolic rise will come back to earth.

On valuation, small caps now trade at a 37% discount to large cap peers. This has grown from 11% over the last decade, driven by the crowding into larger names and small cap underperformance. For certain sectors the disparity is even starker – small cap industrials now trade at an eye-popping 62% discount to large cap names. Like golds, this too will

self correct as extremes don't persist forever just as trees don't grow to the sky.

In times of fear, small caps can wear this initial reaction disproportionately. We have seen this in the first few months of the Trump presidency amidst escalating tariff threats. Excluding resources, small caps are off 9% compared to large caps off 5%. Though not as dramatic, this draws some parallels to the last externally-created fear-driven sell off in Q1/20 – the onset of the COVID pandemic. In this instance small caps were -29% vs large caps -18%. However, it bears reminding that when the market stabilized and started looking through the economic calamity, equities rallied strongly to finish 2020 with small caps leading +63% versus large caps +36% and outperforming over the full period.

BUYS

North West (NWC) is a high quality defensive retailer with leading presence in Canada's North, Alaska and the Caribbean. They have a strong moat around their business and long-term track record of steady growth, margins and returns. NWC has resilient attributes in choppy markets with some unique growth tailwinds incoming from historic financial settlements to First Nations communities in rural Canada. All this while trading at an attractive valuation – we like the set up going forward.

Major Drilling Group Intl (MDI) is a leading drilling services provider to mining and minerals industry. Its a large fleet diversified by geography and commodity. No debt, strong management team, and well positioned to benefit from growing exploration budgets and junior mining financings in the wake of strong commodity prices. The stock has an attractive value on bottom of cycle earnings, lower downside risk with strong upside to an extended mining cycle.

Topaz Energy Corp (TPZ) is an oil and gas royalty and infrastructure name. Great assets in Montney/Clearwater (outsized exposure to best-in-class Tourmaline), very strong management/Board (CEO: Marty Staples; Chair: Mike Rose). Attractive low capex, defensive model, with embedded growth and an outstanding track record of capital allocation. Sell-off to start 2025 provided attractive entry point for high quality name.

SELLS

Softchoice (SFTC) – take-private transaction at a 14% premium.

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