Q2 2025

TRADING ACTIVITY

BARRANTAGH INVESTMENT MANAGEMENT
Canadian Small Cap Equities

Small caps rallied back strongly in Q2, leading the equity market. After peak fear hit in the aftermath of Trump's tariff "Liberation Day", equities surged forward through the remainer of the period. Softening rhetoric and implementation delays on tariffs to allow for negotiations assuaged worst case scenarios and had investors looking to put on risk. As highlighted last quarter, the trailing fear-driven sell-off and corresponding attractive valuation opportunity for small caps bore fruit in Q2 as small caps moved higher.

Gold mining equities performed well, continuing the trend of six of the last seven quarters. However, despite this ~450 bps headwind (we tend to avoid this highly cyclical area), strong stock level and sector performance drove solid outperformance on both a relative and absolute basis. Strong contributions in financials, industrials and healthcare drove the outperformance.

Another trend previously highlighted was the return of M&A activity to the small cap space. This also proved prescient as holding Andlauer Healthcare (AND), a leading provider of healthcare transportation and logistics services, announced a deal to be acquired by industry giant United Parcel Service (UPS) at a ~37% premium to the prevailing price. AND is a high-quality transportation company managing through growth headwinds (in the form of general freight recession in North America) that saw substantial multiple compression as investors shied away from small caps. The UPS bid is just the latest example of a larger strategic or financial buyer stepping in to take advantage when public markets don't value quality businesses appropriately.

The pendulum has swung in three short months from major fear to optimism. Pockets of speculative, risk-seeking behaviour are evident in the market (IPO bounces, crypto rally, AI-related valuations, etc.) suggesting caution has been moved to the backburner. We expect volatility ahead as potential for delayed inflationary impacts from tariffs, job market slowdown, and fiscal concerns reemerge as topics de jour. With that said, we will control what we can by continuing to focus on owning sound businesses at reasonable valuations, set to thrive and grow. Value hunting in small cap land – an asset class that has seen underperformance – provides a robust pipeline of attractive candidates.

BUYS

Exchange Income Corp (EIF)

Exchange Income Corp is a consolidator of niche aviation and manufacturing businesses. While on the surface EIF might look similar to other financial roll-ups in the market with mixed track records, under the 20+ year leadership of CEO Mike Pyle, they have amassed a stellar long-term track record of growth and stability and created a cash flow compounding machine. EIF is well positioned to take advantage of two key macro trends 1) increased spending globally on defence with subsidiary PAL Aerospace, a leading provider of special mission aircraft focused on maritime surveillance and reconnaissance; and 2) continued/accelerated development in Canada's north with EIF the main provider of transportation infrastructure to the arctic, including passenger, cargo, rotary, and medevac air services in the region.

Bird Construction (BDT)

Bird Construction is a Canadian focused construction company with diversified exposure to verticals seeing strong secular growth tailwinds (infrastructure, resources, energy, healthcare etc.) CEO Teri McKibbon has done outstanding job repositioning the business with strong focus on profitability; attractive growth in 3-year plan. The market sell-off afforded us attractive entry point on this strong execution story.

Westshore Terminals (WTE)

Westshore Terminals is an oil and gas royalty and infrastructure name. They have great assets in Montney/Clearwater with an outsized exposure to best-imbedded growth and an outstanding track record of capital allocation. A sell-off at start of 2025 provided attractive entry point for high quality name.

K-Bro Linen (KBL)

K-Bro Linen is a leading provider of laundry and linen processing in Canada and the UK. It is a stable defensive business that navigated COVID and post-pandemic challenges with clear market leadership position in Canada. They've had recent success through M&A, including the Star Mayan acquisition giving them a top 3 position in the UK. The company has an improving growth outlook and a compelling valuation opportunity for this small cap with a ~70% upside to our target.

SELLS

Dye & Durham (DND) Headwinds from real estate activity slowing, customer renewals during the transition period and a CEO search taking longer than hoped, all contributed to the decision to remove this name.

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