

## Q3 2024 INVESTOR UPDATE

# Langdon Canadian Smaller Companies Portfolio

Performance	Q3-2024	YTD	1-Year	2-Year	3-Year	Since Inception <sup>2</sup>
Langdon Canadian Smaller Companies Portfolio <sup>1</sup>	5.4%	10.1%	21.5%	18.3%	N/A	13.6%

<sup>1</sup> LEP110 (Class F) - performance is net of fees

<sup>2</sup> Since date of August 26, 2022

Returns greater than one year are annualized

Past performance is not indicative of future performance. Please see the important information in the endnote below

## Portfolio Attribution for the Quarter:

Three businesses delivered greater than 30% returns in the quarter: <sup>1</sup>

- TerraVest
- Colliers
- Aritzia

The main detractor this quarter was Boyd Group which was down approximately 20%. Since, we discussed Boyd Group in our [Q2 commentary](#), we will share a fresh perspective on another holding in our Canadian Smaller Companies Portfolio.

## Company Highlight: Aritzia

**Aritzia**, founded in 1984, is an everyday luxury fashion house focused on the female consumer. Aritzia and its halo of brands; Wilfred, Babaton, TNA, Super Puff, Sunday Best have been well known to Canadians for years. Revenues at Aritzia increased from \$875MM pre-COVID to \$2.2B for the fiscal year ending February 2023, driven by growth in eCommerce and the United States.<sup>2</sup>

We have spent time with several key leaders at Aritzia to better understand their store real estate and distribution strategies. **It is clear that the company invests in talent as thoughtfully as it does in capital.** For example, founder Brian Hill spent nearly a decade recruiting their Head of

<sup>1</sup> Portfolio company returns sourced from Bloomberg

<sup>2</sup> Aritiza financial statements and company reports

Real Estate before she joined. Similarly, Aritzia waits patiently for its target location to become available—whether in a mall or on a street—before committing to long-term leases.

Over the past two years, the business navigated a major catch-up capital expenditure program that was needed after the business saw eCommerce revenues nearly quadruple through the pandemic. While the capital program was sensible, the front-loaded nature and its impact on cash generation surprised us. For us at Langdon—and for Aritzia’s management team—this has been a valuable lesson in communication. With these distribution network investments now behind them, we have seen the business deliver on expected margin improvements while continuing to grow.

We are excited for what lies ahead as they continue to invest in U.S. growth, which now represents over 55% of revenues, while patiently laying the foundation for international expansion in the years to come.<sup>3</sup>

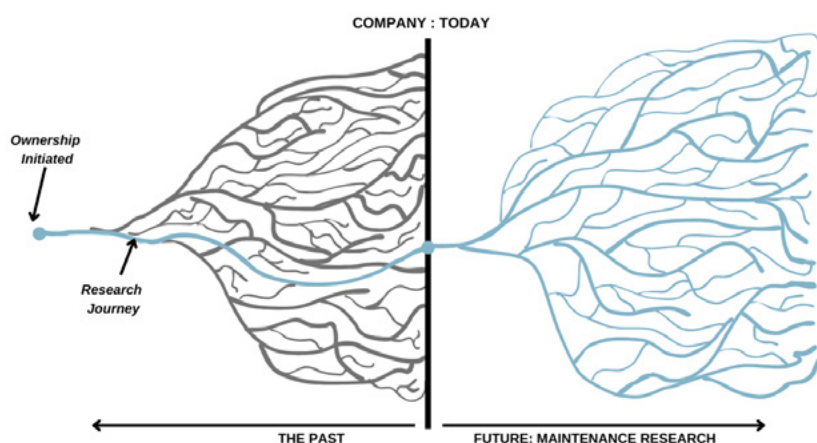
## Variant Perception

We came across a graphic on Linked In a few weeks ago which looked at life paths, reflecting on the journey people take to get to present day and the infinite possibilities of the future.<sup>4</sup> While it applies to ‘life paths,’ it inspired us to reflect on our journey as owners of businesses and how this visual could apply to our research process as well. **Any visible outcome for a business we own has many alternative paths that were tested along the way. Our research seeks to understand and explore as many of these past and future alternate paths as possible.**

When we initiate a position, we have explored many different assumptions and avenues for the business. However, relatively speaking, our research is still in the early innings at point of first investment, as the research process continues even after we are invested in the form of maintenance research.

**We spend a significant amount of time on maintenance research of companies we follow and own. This helps us strengthen our convictions and gain a deeper understanding of a business and its end markets.**

Ironically, the time at which we exit a business just might be the time when our understanding of it is the strongest. However, we are then able to leverage this conviction and knowledge when looking at new businesses in similar industries around the world.



<sup>3</sup> Aritzia financial statements and company reports

<sup>4</sup> <https://waitbutwhy.com/> <https://x.com/waitbutwhy/status/1367871165319049221>

One recent example of maintenance research was a trip to Germany and Italy with **ATS Corporation**. ATS is a provider of automation solutions to manufacturers around the world. The business is driven by talented engineers who design and assemble automated assembly technology that is installed into manufacturers in the Life Science, Food and Beverage, Transportation, Packaging, and Energy sectors. An example of this would be production of an automated assembly line that manufactures inhalers for asthmatic patients or epi-pens for those who have anaphylaxis.

We spent time with local operators at ATS Life Science Tooling, Comecer, and CFT Group. Two of these three businesses were acquired by ATS in the past five years, and we expect all of them to be meaningful drivers of growth and returns on capital in the years ahead. These trips give us the opportunity to observe operational changes post-acquisition, meet with local talent, gain a deeper understanding of growth and margin drivers, and experience first-hand the decentralized culture that management has fostered. The culture at ATS is similar to Langdon's, with both organizations driven by a shared focus on continuous improvement.

**As long-term owners of these businesses, maintenance research is a critical tool for us to continue to build conviction.** We believe we follow the right businesses, but to consistently generate returns we must have a view on a business that differs from consensus. As we refer to it: **variant perception**.

## Tour du Canada

At Langdon we often talk about '**non-obvious compounders**', businesses that compound returns but aren't as obvious as a Constellation Software. These might be businesses that have gone through a capital investment cycle while facing input cost headwinds and recycling capital by exiting lower-quality operations. Such businesses can be well-positioned to create significant shareholder value as their rate of change improves dramatically. **This is one reason we don't screen our universe based on output metrics. Screening for metrics like free cash flow growth or high returns on capital would mean missing opportunities that fall into this non-obvious category.**

Throughout this year, we explored Canada to identify some of these businesses and connect with the operators behind them, meeting with 33 companies we do not currently own. Admittedly, opportunities in Canada are scarce. Finding a non-obvious compounder with both a strong track record and proven management team is no easy feat. We are now digging deeper into some of these businesses and believe we've uncovered new opportunities with the potential to become non-obvious compounders. We look forward to sharing more about these companies in the coming quarters.

Thank you for your continued support.

## DISCLAIMER

This article is prepared by Langdon Equity Partners. Content in respect of the Langdon Smaller Companies Fund (ARSN 657 901 614 (the Fund) is issued by Pinnacle Fund Services Limited ABN 29 082 494 362 AFSL 238 371 ('PFSL') as responsible entity of the Fund. PFSL is not licensed to provide financial product advice. It contains general information only, including any companies identified by name. It is not intended as a securities recommendation or statement of opinion intended to influence a person or persons in making a decision in relation to investment. It has been prepared without taking account of any person's objectives, financial situation or needs. Any persons relying on this information should obtain professional advice before doing so.

Past performance is for illustrative purposes only and is not indicative of future performance.

While Langdon Equity Partners Limited ('Langdon') and PFSL believe the information contained in this communication is reliable, no warranty is given as to its accuracy, reliability or completeness and persons relying on this information do so at their own risk. Subject to any liability which cannot be excluded under the relevant laws, Langdon and PFSL disclaim all liability to any person relying on the information contained in this communication in respect of any loss or damage (including consequential loss or damage), however caused, which may be suffered or arise directly or indirectly in respect of such information. This disclaimer extends to any entity that may distribute this communication.

### FOR AUSTRALIAN CLIENTS:

The Product Disclosure Statement ('PDS') and Target Market Determination ('TMD') of the Fund are available via the links below. Any potential investor should consider the PDS and TMD before deciding whether to acquire, or continue to hold units in, the Fund.

Link to the Product Disclosure Statement: [here](#)

Link to the Target Market Determination: [here](#)

For historic TMD's please contact Pinnacle Client Service Phone 1300 010 311 or Email [service@pinnacleinvestment.com](mailto:service@pinnacleinvestment.com)

### FOR CANADIAN CLIENTS:

Important information about each Langdon mutual fund is contained in its prospectus, AIF, fund facts document and in its management report on fund performance. Any potential investor should review these documents prior to making any investment decision relating to such fund. You can view copies of these documents by following the links below:

Link to the Langdon Global Smaller Companies Portfolio Disclosure Documents: [here](#)

Link to the Langdon Canadian Smaller Companies Portfolio Disclosure Documents: [here](#)

# langdon

PARTNERS



CONNECT WITH US



130 BLOOR STREET WEST, SUITE 1000,  
TORONTO, ONTARIO, M5S 1N5

**FOR INSTITUTIONAL DISTRIBUTION  
QUERIES**

**T:** 1833 864 2677 (CANADA)  
1300 010 311 (AUSTRALIA)

**E:** [insto@pinnacleinvestment.com](mailto:insto@pinnacleinvestment.com)

**FOR ADVISER QUERIES**

**T:** 1833 864 2677 (CANADA)  
1300 010 311 (AUSTRALIA)

**E:** [distribution@pinnacleinvestment.com](mailto:distribution@pinnacleinvestment.com)

**FOR EXISTING INVESTOR QUERIES**

**T:** 1833 864 2677 (CANADA)  
1300 010 311 (AUSTRALIA)

**E:** [clientservices@langdonpartners.com](mailto:clientservices@langdonpartners.com)