IBV CAPITAL

2021 Annual Partnership Letter

Dear Partners,

As we reflect on the year and look forward to the next, we are gripped by a few consistent themes that are dominating our investment activities. Without hesitation, the enormity and relentlessness of the economic strain that COVID-19 has placed upon developed and developing countries is worthy of awe. Despite this reality, there's an insatiable appetite for financial risk that's catapulted valuations in certain areas of financial markets to incomprehensible levels. Offsetting this dour outlook is our intense optimism for the return to normalcy – in life and financial fundamentals – that will benefit everyone's personal wellbeing and our investment strategy.

The IMF has estimated that global economic output will decline by a total of $28 trillion due to COVID-19 response efforts[1]. That's equivalent to 16 years of Canadian economic output![2] The magnitude of the impact is enormous. Unfortunately, it's already evident that this economic crisis will fall disproportionately on developing nations and the world's most vulnerable citizens.

To blunt the viruses spread, a variety of measures to limit mobility and social gatherings have been implemented. As an offset to the associated economic decline this would cause, fiscal and monetary stimulus programs were widely adopted. The combination of these activities has drastically shifted consumer spending. Instead of experiences – a growing component of most families annual buying habits – consumption has pivoted to focus on hard goods. Unfortunately, this shift occurred at the exact moment that any potential supply response was becoming more difficult. The result is inflation levels we have not experienced in decades.

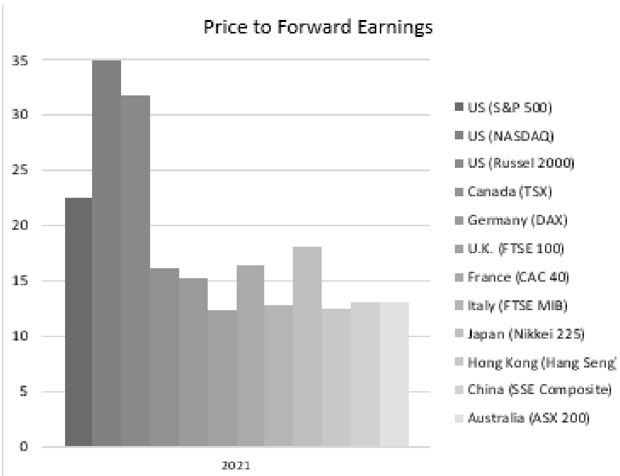
While we can identify other periods in history that have exhibited high levels of inflation, few periods offer insights into the complexities our economic system is facing today. The underlying uncertainty COVID-19 has had on corporate operations, and consequently

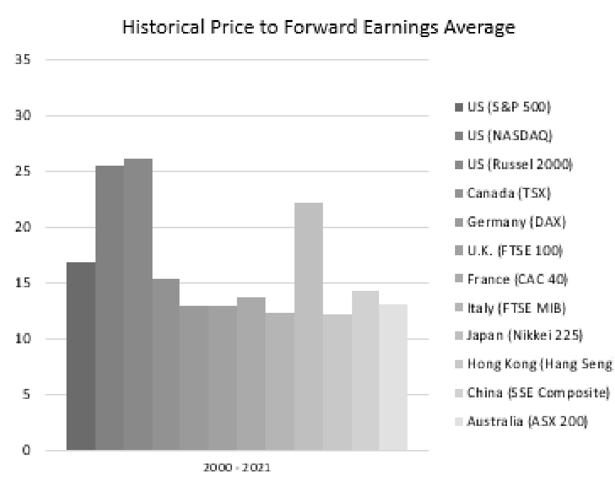
[1] https://sgp.fas.org/crs/row/R46270.pdf

[2] Canadian GDP in 2019 was $1.742 trillion US dollars. For our American readers, this equates to 1.3x your $21.43 trillion in 2019 GDP.

their earnings potential, is without precedent. This will make taming inflation – without causing intense economic strain - more challenging than in the past.

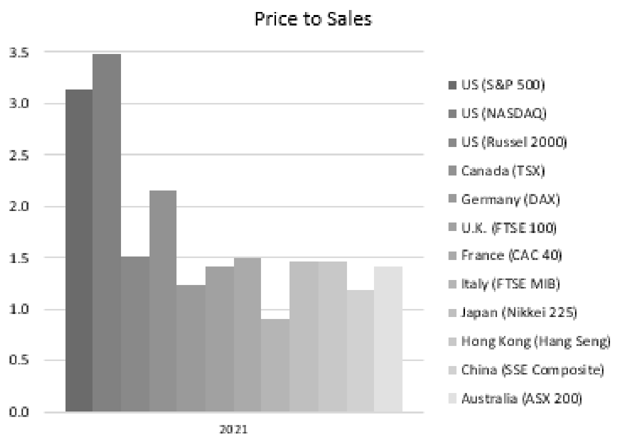
Under these turbulent circumstances, we would anticipate an environment with historically low financial asset valuations. Instead, even after adjusting for future earnings growth expectations, we are witnessing valuations, relative to the income they will generate, at 20-year highs.

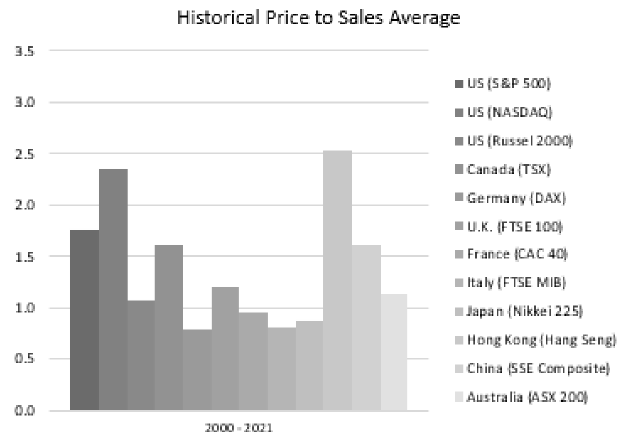




While assessing valuations relative to the earnings they generate is insightful, it would be inappropriate for us to draw any conclusion from a single valuation metric. Instead, to provide the necessary level of context, it would be illustrative to view valuations relative to sales too. This arguably provides the purest valuation comparison, as sales, unlike earnings, are not subject to adjustments for onetime events. A particularly important consideration since we're experiencing a once in a lifetime event. As indicated, this value comparison approach highlights the unusually high valuations we're faced with today. Especially in North American markets.[3]

[3] "At 10 times revenues, to give you a 10-year payback, I have to pay you 100% of revenues for 10 straight years in dividends. That assumes I can get that by my shareholders. That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero expenses, which is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal. And that assumes with zero R&D for the next 10 years, I can maintain the current revenue run rate. Now, having done that, would any of you like to buy my stock at $64? Do you realize how ridiculous those basic having done that, would any of you like to buy my stock at $64? Do you realize how ridiculous those basic assumptions are? You don't need any transparency. You don't need any footnotes. What were you thinking?" - Scott McNealy, CEO of Sun Microsystems



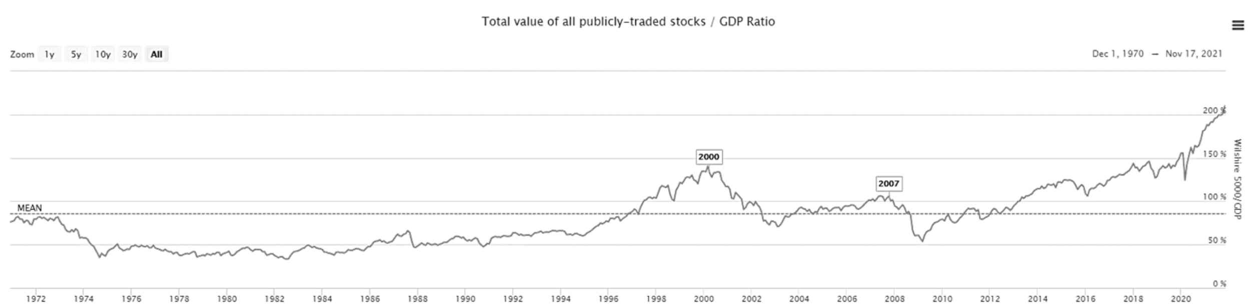


To justify the apparent anomaly in valuations it would be our expectation that we could easily identify a unique and sustained increase in economic activity. Simply returning to long-term growth trends isn't enough considering the magnitude of additional debt most economies will be burdened with moving forward. Unfortunately, in the United States, despite the unprecedented monetary and fiscal stimulus packages in place, it's evident that the resulting economic growth is hardly above the long-term averages.

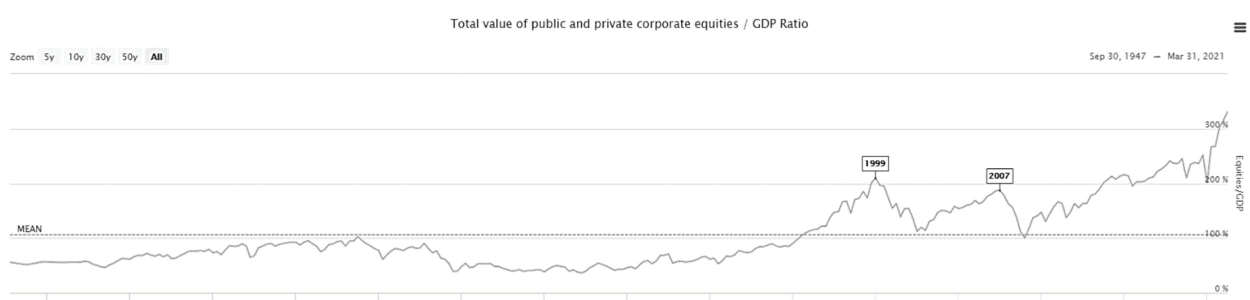
To eliminate the possibility that our view on valuations is being distorted by the inclusion of a few large public companies with outsized growth potential, we have also considered a broader range of public market valuations[4] relative to total economic output. This should compensate for the fact that the largest companies by valuation should also be the largest contributors to the economy. Equally important is that we have considered a proxy for private markets because we realize that not all economic output is generated by public companies. As indicated, at no time in recent history have valuations been so high relative to the economic output generated by both public and private companies.

S&P 500 to GDP Ratio

Wilshire 5000 to GDP Ratio



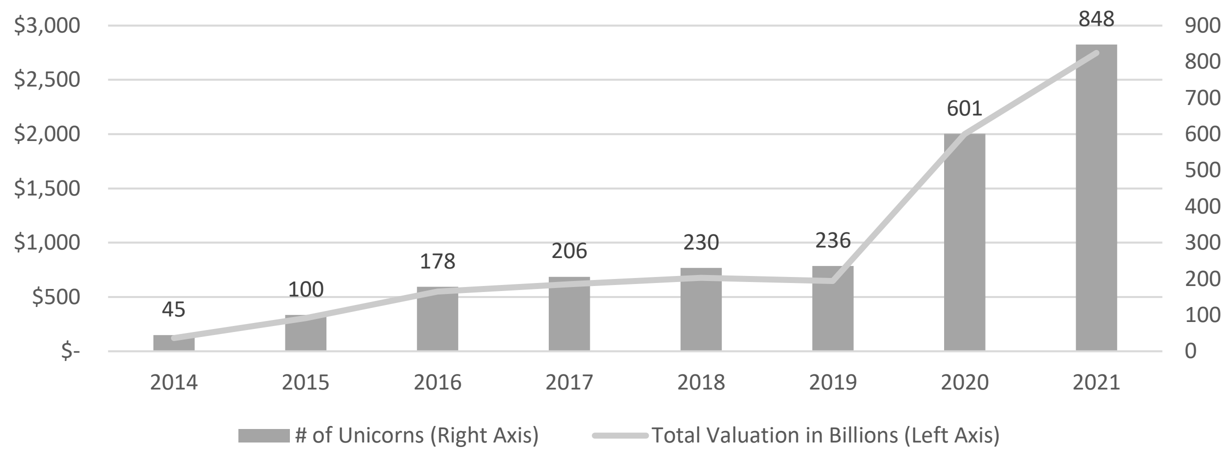
Value of Public and Private Equities to GDP Ratio



While enthusiasm is widespread, there is evidence that it has been disproportionately focused on startup companies. In a few short years, we have seen a proliferation of start-

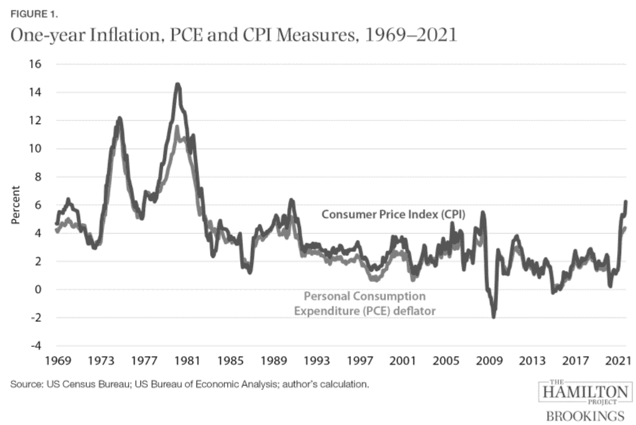
[4] The Wilshire 5000 is a market-capitalization-weighted index of the market value of all American-stocks actively traded in the United States. As of December 31, 2019, the index contained 3,687 components.

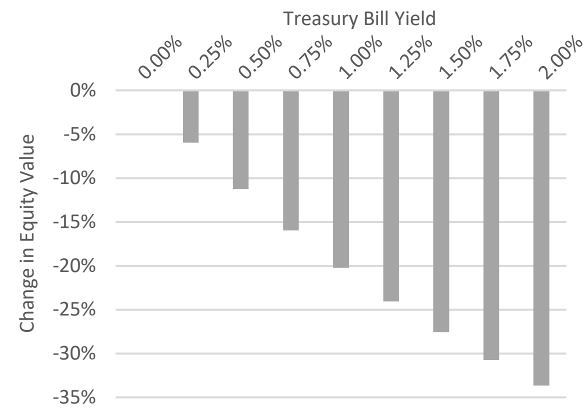
up companies being granted with billion-dollar valuations. These companies are called unicorns. While some will deserve the markets recognition of their earnings capability, history has proven that most will not.



While we're in an environment where economic growth is unstable, valuations relative to that economic growth are historically high, and inflation is transitioning to price instability, for additional perspective we have also considered the interest rate environment. It too is consistently breaching historical norms. For current inflation levels, nominal interest rates are far too low, thereby creating negative real returns. This is also unsustainable.

We anticipate it being rectified in two ways – central banks will tighten monetary policy and/or the spread between government interest rates and corporate interest rates will widen to compensate investors more appropriately for the cost of inflation. In either scenario, this will reduce economic activity, temper inflation, and act as a persistent headwind to financial asset valuations. The sensitivity of company valuations to a level of interest rates that's consistent with normalization affirms our cautious stance.





It is evident that the risks we are witnessing are systemic and additive. While headwinds do exist, we are fully aware that maintaining a cash position also has its drawbacks. Namely, the loss of purchasing power that's caused by inflation.

However, from our perspective, the cost of deploying capital incorrectly greatly outweighs the risk associated with inflation. Particularly if inflation will be normalized around long run targets of 2% that are built into Central Banking mandates.

As we drift towards the endemic stage of COVID-19, a return to normalcy is within grasp. Similar to the pivot that occurred at the beginning of COVID-19, this phase will also usher in a shift in everyone's daily activities. Consequently, consumer spending will refocus to areas of the economy that were previously considered essential – area's we've positioned ourselves to benefit from as this resurgence in utilization occurs.

Throughout this turbulent time, we have remained steadfast in executing our value driven strategy. This commitment will persist. As such, we will only gravitate towards making investments that allow us to maintain our discipline of ensuring we preserve capital while simultaneously positioning ourselves with return potential. In the past year, this has meant a transition out of North American markets so we can focus on buying profitable companies that perform an essential role in the economies they serve, at reasonable prices.

Irrational Exuberance

The market value of our IBV Capital Global Value Fund increased by 0.2% (net of fees) in the fourth quarter of 2021, bringing our 2021 performance to 2.0% (net of fees). Importantly, the intrinsic value of our portfolio advanced by 10.9% in the quarter and decreased by 2.7% for the year. For comparative purposes, during the fourth quarter of 2021, the MSCI World Index increased by 7.8%, contributing to its 2021 performance of 21.8%.[5]

We employ a 'bottom-up' approach to investing. This naturally focuses us on pursuing an understanding of the granular details of a business's operations, financial capabilities, and any external forces that may impact them. Our personalities must be predisposed to it because it's a process we deeply enjoy.

However, *our* approach contrasts with a 'top-down' approach. A strategy that emphasizes the importance of macroeconomic factors and sector themes in the investment decision-making process.

While we appreciate the benefits of our 'bottom-up' strategy – it heightens our probability of making successful investments - we also understand that the macroeconomic environment provides us with perspective. In reality, it would be inappropriate to look at a business in a vacuum.

Instead, it's critical that we understand how a business will perform operationally and financially under the different phases of an economic cycle. It's also important we understand where in the economic cycle we are - expansion, peak, contraction, or trough - as the combination of these considerations provide us with context when we're assessing the valuation of a business.

It's through this lens that we consider the current business environment over the last two years. Developed economies have contracted – or expanded very modestly – and developing economies have struggled mightily. This is despite both receiving unprecedented fiscal and monetary stimulus. While this stimulus has had the desired effect of avoiding the catastrophic economic consequences of COVID-19 containment measures, most economies remain extraordinarily fragile.

While this underlying instability persists, stock and bond market valuations have risen relentlessly. This has only amplified our concerns about the sustainability of current public and private market valuations. It has also created a set of conditions that make it unusually difficult for us to deploy our cash – which is at a heightened level after exiting

[5] "IBV Capital Global Value Fund" consists of USD$ IBV Capital Global Value Fund LP Class A master series unit returns, net of fees. Inception date of this series is September 1, 2014. "Intrinsic Value" represents IBV Capital's internally calculated value for the cumulative securities within IBV Capital Global Value Fund. "MSCI World Index" is based on the USD$ returns MSCI World Free NR Index. Full investment disclosures can be found on Page 11.

two successful investments - in a manner that respects the degree of risk we're willing to take for a return profile we're comfortable with.

While current conditions are not ideal, we continue to find and invest in attractive opportunities on a global basis. As a result, when we combine the recent deployment of our cash into undervalued securities with the increased market value of our portfolio, it's widened the gap between the intrinsic value of our portfolio – what we think our portfolio is worth – and the market value of our portfolio to 56.3%.

Presently, the portfolio consists of 12 investments. This signifies an increase of 2 names during the quarter. Over the year, we deployed 59% of our opening cash balance into new investment opportunities. Since we began the year with a 54.5% cash position and realized a few successful investments along the way, such as FirstGroup Plc, our year end cash position has remained elevated at 40.1%. While we have deployed capital when we find a good investment, we continue to be thoughtful and selective in our investment process.

The Conventional Path to Overnight Success

While conditions in North America create challenges identifying attractive opportunities, we're enjoying more success deploying our capital in other developed economies. The United Kingdom has been one jurisdiction that's produced favorable investment results for us, and we continue to source investment opportunities there.

Coats Group Plc (COA) has been in business for over 200 years. In fact, its initial public offering took place in 1890 on the London Stock Exchange. Today, COA is the world's leading industrial thread provider. As the saying goes, it takes years to become an overnight success.

The company today, produces products for apparel, footwear, telecommunication, energy, personal protection, and automotive companies. Over time, COA has used its innovation, global footprint, and industry leading manufacturing scale to consolidate market share. For instance, in the apparel and footwear segment, COA dominates the industry with 21% market share. It has also built a 10% market share in performance materials – a business line we like.

The apparel, footwear, and performance materials are established segments providing the company with an annuity like financial underpinning. Whereas COA's future growth will be driven by innovation in divisions such as telecommunication, where their products have become deeply embedded in the roll out of 5G infrastructure. Their automotive segment also offers growth opportunities as it is focused on fuel efficiency through the light weighting of cars. An important goal for all automobile manufacturers.

While COA's underlying fundamentals are highly resilient – they *have* survived for over 200 years – the value of the company was susceptible to the impact COVID-19 had on financial markets. It was at this moment that we made our first investment - three years after meeting their management team for the first time.

Our long-term investment in Vertu Motors Plc (VTU) continues to perform exceptionally well. Their profitability – driven by increased margins in used vehicles – has tripled since 2019. This has been aided by executing a plan to opportunistically acquire dealerships while conducting share buybacks during the height of uncertainty of 2020.

We long extolled the virtues of VTU's conservative balance sheet and data-driven approach to operations and acquisitions. As the United Kingdom's 5th largest and best managed automotive retailer, we continue to anticipate strong operational and financial performance in the future.

In maintaining the commonwealth theme, we have continued to increase our overall exposure to two businesses in Australia and one in New Zealand. Our investment thesis in AMA Group – Australia's largest automotive collision repair specialist – remains intact. Similar to AMA Group, our other investment in Australia will be helped by a return to normal. A state that's becoming increasingly desired by citizens around the world.

Over the course of 2021, we exited our investment in FirstGroup Plc (FGP) and solidified an excellent result. Since 2019 we have produced a gross IRR of 36.3%. Importantly, we had also allocated a significant portion of our portfolio to FGP, so the returns have resulted in a material positive contribution to our overall results.

Another Turnaround Story

When choosing 401 Bay Street to become our new home, part of the building's appeal was the dramatic renovation that was underway. The building's entire exterior was being reclad to modernize its appearance and improve overall energy efficiency. As the year came to an end, this project was nearing completion. The building looks spectacular, and we're thrilled that our colleagues and clients can enjoy our new office tower.

Sincerely,

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