IBV CAPITAL

Dear Partners,

This year we bore witness to intense extremes in all aspects of our lives. For millions of people, the physical healthcare impacts of COVID-19 have been devastating and for millions more, they are enduring a relentless emotional roller coaster.

Economically, only once before have we seen a more destabilizing environment than in the early days of the crisis – the great depression. This immediately translated into stock markets plummeting at a dizzying pace, but only for a brief moment. Despite the financial repercussions being far from clear, today, the markets have never been higher.

As we evaluate numerous company's financial prospects against their current valuations, we're left with an uneasy feeling. Most companies are being valued as if a return to normalcy – whatever that may mean - will be both smooth and assured. Our experience suggests this will not be the case and has compelled us to pass on many of the opportunities we have researched. Although our disciplined approach is proving to be restrictive in this market, our investment partners should take comfort in our long track record of preserving their capital.

What's also become clear to us during this tough moment in history is individual perspectives are diverging wildly from one another. On one end of the spectrum are those deeply concerned for their health and the health of their loved ones. An opposing standpoint originates from those individuals fortunate enough to not share this apprehension and as a result place a higher priority on other life pursuits. Today, an unfortunate and unnecessary tug of war exists between these extreme views and it's creating debilitating effects.

Clearly, government mandates designed to battle the spread of COVID-19 are oppressing societies willingness and ability to be harmonious. This has manifest in unusual ways and unexpected outcomes will arise. The anti-COVID measures are also altering individual behavior. This is evolving into a loss of perspective and we're witnessing the impacts in corners of the economy and markets.

With everyone being confined to their homes, cities, and countries, it's no wonder that perspectives have narrowed. Unfortunately, when the blinders are removed, there's a very high probability that the broader reality is different than the superficial one we're in now. To prepare ourselves for that alternative reality, we must consider how the lens through which certain individuals are seeing is being shaped.

In March, as fear of the unknown gripped the world, nearly everyone took refuge by going home and staying there. This initiated an environment that would see individuals impacted in vastly different ways. Generally, hourly workers have fared terribly, most stay-at home salaried workers have benefited, and business owners have seen an extreme spectrum of outcomes. We sense that these three cohorts will experience evolving impacts as the crisis drags on.

For instance, initially, businesses looked to hourly workers when executing mass layoffs or enacting reduced work hours to offset plunging revenues and unprecedented uncertainty. Fortunately, as witnessed by the increase in disposable income in developed economies over this period, fiscal policy has been capable of partially offsetting the financial impact of this reaction. We anticipate this financial equalizer will diminish in effectiveness over time and structural unemployment will take hold if the labour market doesn't meaningfully improve and quickly.

Considering the lock-down mandates, laying off hourly workers was a natural starting point. It took less planning and incurred less friction than executing redundancies for salaried employees and executives. However, as the economic distress continues, it's obvious to us that these more senior individuals will also be impacted. We suspect that fiscal policy is incapable of offsetting this eventuality. Therefore, we would expect this to exacerbate the labour market's challenges and may represent a lasting drag on growth.

Until this transition occurs - and we're hopeful it doesn't - for salaried workers working from home, this can be seen as a highly beneficial set of circumstances. With daily costs eliminated – such as transportation, dry cleaning, coffees, and lunches – and limited entertainment spending options while in lockdown conditions, savings rates have increased materially. Enhancing this is a new level of mobility that's allowing families to move to jurisdictions with lower living costs and tax rates. Whether these savings represent a temporary boost to personal finances or translates into a longer lasting benefit is to be determined.

While savings are beneficial to some individuals, unfortunately, they represent the demise of others. We see this in the form of countless closed businesses and depleted government coffers. For those who haven't ventured into their nearest desolate metropolis, it's a worthwhile experience. Peering from our windows over Toronto's vacant financial core – a growing sense that the negative trickle-down impact has yet to truly take grip is ever present.

Most business owners have been burdened with the full force of the crises. While managing a business that's lurching from one set of operating rules to another, businesses are also undertaking the crucial responsibility for maintaining the physical health and mental wellbeing of their employees. A tiring, disruptive, but deeply appreciated undertaking.

Encouragingly, some businesses have fared well. Whether by careful design or pure luck, they have been in the right industry or pivoted quickly to adapt to the inconsistent landscape of operating rules. These instances of overwhelming success are few and far between. They're also disproportionately lopsided towards a few large institutions and select industries. We are afraid that far too many have been unable to adapt at the required pace and have either perished or teeter precariously on the edge of survival.

The mounting question is whether the pace of the advancements for successful organizations will offset the underling rot in the economy. We're concerned it won't. We also recognize that helping to bridge the gap between economic despair and financial hope is a combination of confident complacency and incredibly accommodative fiscal and monetary policy.

Unfortunately, monetary, and fiscal stimulus have limits in terms of magnitude and design. Confidence, as we've seen in the past, is a precarious emotion that can unwind in an instant. To us, it's inconceivable that we can endure a sustained period of these conditions without cracks forming. Where they form and the damage they'll ultimately inflict is less certain.

This makes it all the more probable that a simultaneously low (or negative) economic growth environment, low interest rates, and robust company valuations, won't be with us indefinitely. Since we refuse to take indiscriminate risks, we'll continue applying a very fine filter to the incredible number of investment opportunities we envision emerging in the not-too-distant future.

Partying Like It's 1999

The market value of our IBV Capital Global Value Fund increased by 27.3% (net of fees) in the fourth quarter of 2020, bringing our 2020 performance to -1.1% (net of fees). Importantly, the intrinsic value of our portfolio advanced by 6.7% and 25.4% during the quarter and year, respectively. For comparative purposes, during the fourth quarter of

2020, the MSCI World Index increased by 14.0%, contributing to its 2020 performance of 15.9%.[1]

It's remarkable to note that most major indices enjoyed one of their best years in the past decade. Considering what's occurred in the previous twelve months, extra-ordinary fiscal and monetary stimulus is the only logical rationale for why this is the case. The stock market and economy have rarely been so disconnected. This is what 1999 must have felt like.

Following the busting of the dot-com bubble, it only took a few months for many companies to lose most or all of their value. What caused the bubble to release so much value into the wind so quickly cannot be accurately pinpointed, but one article from Barron's during that period strikes us as a fitting explanation "Burning Up; Warning: Internet companies are running out of cash—fast[2]".

Today, this warning could be applied to companies in a much broader base of industries. Many organizations that once had wonderful economics are now financially devastated. Inexplicably, some of their stock prices have never been higher.

Since this makes little financial sense, we have chosen to proceed with extraordinary caution in deploying capital. In turn, we've rarely had a higher level of cash as we do today. It stands at 54.5% as opposed to our since inception average of 21.5%. While this would suggest a drag on future performance is to be expected, we have a long history of proving that will not be the case.

Another troublesome development this environment brings is how to differentiate the rationale for our returns in light of our thoughts on the basis for the market's enthusiasm. For instance, while we can acutely explain why we performed well this quarter, only market sentiment linked to a vaccine approval, a democratic presidential victory, and an approved fiscal stimulus package can explain market movements.

Oddly, these catalysts were already well telegraphed – meaning they should have been priced into expectations. Practically, they also do little to ease the immediate stress on the many businesses in dire straits. Nonetheless, this meant we appear correlated with

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[1] "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 9.
[2] A link to the Barron's article can be found here: https://ibvcapital.com/barrons-burning-up/

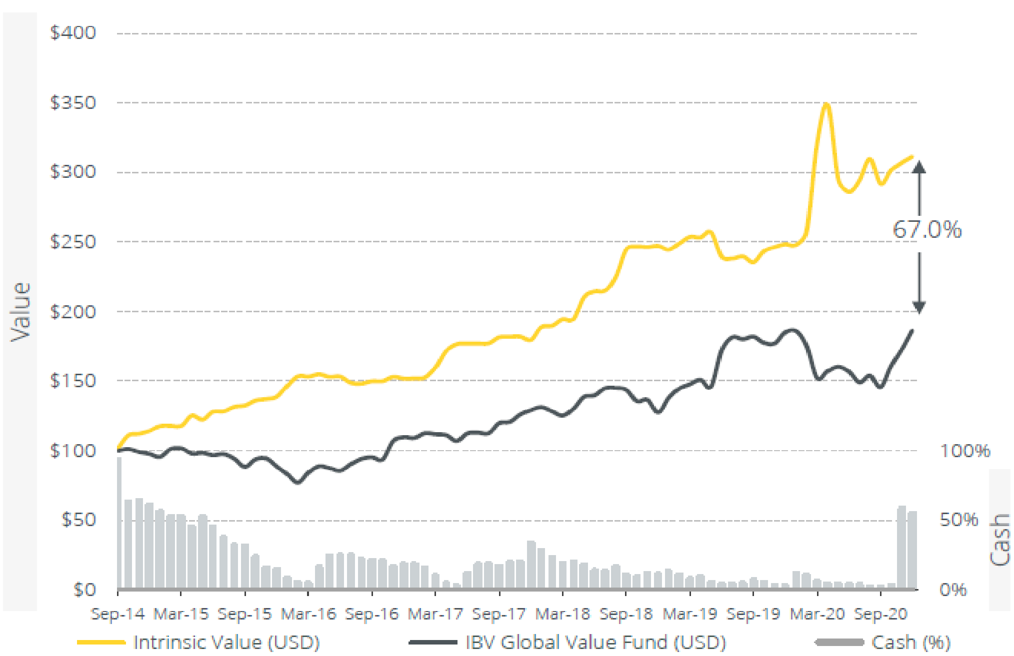
markets despite specific events in our portfolio proving this was anything but the case. Simply put, the market stole our thunder.

Our performance this quarter can be explained by the closing of our Ascendant Group transaction. Prior to closing, Ascendant was trading at $31.38, despite Algonquin Power and Utilities Corp's offer of $36.00 in cash. Once the deal closed, we received the cash and recognized the final performance boost.

FirstGroup Plc is also guiding towards the full realization of our investment thesis. In early 2019, we identified that their North American division was incredibly valuable and should be separated from the parent company. In early 2020, they announced a strategic review to do just that.

The onset of COVID-19 caused them to pause the auction process they were holding to sell this part of their business. It's since been resumed and is currently in late stages. Considering the environment, market participants have been tentative to give the company full credit for the proposed spin-off. As we did with Ascendant, we will just have to wait for a formal announcement before realizing our anticipated intrinsic value.

Alone, these two embedded catalysts dramatically increased the market value of our portfolio. When combined with our cautious approach to deploying capital, which translated into the building of a meaningful cash position, it had the effect of narrowing the gap between the intrinsic value of our portfolio – what we think our portfolio is worth – and the market value of our portfolio to 67.0%.



At year end, we had 13 investments within the portfolio. We anticipate the number of investments to fluctuate over time, but in the long run will average at today's levels or higher.

Stealing Our Thunder

Nothing seems to be able to impede the market's recent ascent, not a worsening pandemic, not the worst economic environment since the great depression, not even a capitol overthrown by an angry mob. While few can intelligently articulate current market dynamics – we won't try either - fortunately, we can directly attribute our investment performance to positive developments in our portfolio companies.

Our investment in RE/MAX, the world's leading franchisor of real estate brokerages, represented an uncharacteristically short holding period. In March, during the market panic, we acquired a meaningful position in RE/MAX. We have followed the residential brokerage industry and RE/MAX for some time and have always appreciated the strength of RE/MAX's brand and business model.

The decision to invest with pace and during such uncertainty was predicated on our knowledge of RE/MAX being insulated from any significant volume and price decline in North American residential real estate. A seemingly high probability scenario in the moment. Unlike its peers, RE/MAX enjoys a franchise model. With revenues predominantly coming from franchise and agent fees, instead of a portion of commissions, the company enjoys very stable underlying economics. It was apparent to us that the market had not recognized this powerful economic reality and was treating RE/MAX like any other brokerage house.

We appreciate that a franchisor like RE/MAX should trade at a premium relative to a conventional residential real estate brokerage. However, we also realize that RE/MAX has never received the franchisor moniker, so we have no basis to assume it would in the future. As such, we applied very conservative historic valuation metrics when arriving at the company's intrinsic value. While we'll intently watch for a change in sentiment on how its business model is perceived, until that changes, we take great pleasure in knowing we made an astute investment that had a material positive impact on the portfolio.

After 5 years, we have exited our investment in Ascendant Group. It's a bittersweet moment because it marks the end of a wonderful journey that generated a 49.0% internal rate of return. An outstanding accomplishment in the regulated utility industry.

Reflecting on this pivotal investment, a few themes have emerged. For instance, we appreciate now that the perception of risk when investing in foreign jurisdictions can be over exaggerated. While risks do exist, with an appropriately heightened level of awareness and exceptional due diligence, they can be identified and managed in a responsible fashion.

Also, while each island economy is unique, many similarities do exist. Underlying each is varying levels of contribution from tourism. Beyond this transient economic activity is a self-sustaining country that often relies heavily on a few market participants in each industry to ensure it's functioning soundly. To some, this dynamic may imply that challenging constraints exists, but it simultaneously unveils a wonderful subset of investment opportunities to the decerning onlooker.

As a firm, Ascendant Group revealed our unique capabilities that expand beyond identifying attractive investments and buying them. We crafted a comprehensive strategy, spent years building a position in an illiquid security, and became a catalyst for positive change. We hope Ascendant Group will be the first of many investments we make in Bermuda and other similarly promising jurisdictions.

A Character-Building Year

This was an incredible year and we're proud of our accomplishments. Importantly, despite the environment, we were able to protect your capital. This objective is our North Star, our reason for existence, and we don't waiver from our effort to achieve it.

We're also proud to report that we welcomed more new investment partners to IBV Capital in 2020 than in any year since our founding. In an equally impressive testament to our firm, not one existing partner left, maintaining our seven-year record of keeping every investment partner that joins us.

A contributing factor to this year's success at IBV Capital was the launch of our National Bank Independent Network partnership. This platform makes us more accessible to our new and existing investment partners, further elevating the level of convenience in partnering with us.

Sincerely,

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