IBV CAPITAL

Q3 2021 Partnership Letter

Dear Partners,

We appreciate the appeal of investing in markets close to home. Particularly for investors in North America. A few fundamental truths exist that substantiate this local appeal. The rule of law exists here. We have a developed financial market that provides access to capital at a reasonable cost – an underappreciated virtue that frequently reasserts its importance. North America also benefits – albeit not uniformly – from a more diversified economy.

While these dynamics are present in Canada and the United States, they're also readily available in other developed economies further afield. The United Kingdom, Western Europe, Australia, New Zealand, and Bermuda represent a few geographies that we are comfortable investing in.

The benefits of having access to a broad investment opportunity set – created by geography alone – is critical to managing the return and risk profile of our portfolio. It allows us to address the concerns we have today about the sustainability of North America's stock and fixed income valuations. We understand these valuations are being supported by interest rates, which are unsustainably low. Particularly in the context of current and long-term inflation expectations.

In North America, finding great companies to invest in is comparatively easy. We have a long list of businesses we'd be pleased to own, and that list is constantly growing. However, a great business does not always equate to a great investment.

The price we pay for a business is often the primary determining factor of whether our investment is successful. Unfortunately, the valuations being ascribed to good and bad businesses are elevated. After incorporating the profound and unpredictable risks COVID-19 has imparted on business operations, some of the valuations we see today appear downright absurd.

Since we have enjoyed success investing in a variety of geographies, our motivation for transitioning to new jurisdictions in this valuation environment is only logical. Today, we're applying our comprehensive investment due diligence process to businesses in locales such as Australia.

From our perspective, Australia is similar in form and size to Canada, but valuations in some attractive businesses are a fraction of those seen here. This lower valuation dynamic offers us a much wider margin of safety. This often translates into us capturing higher returns while simultaneously protecting against our definition of risk – incurring a permanent loss of capital.

While a business' country of origin is important, its underlying fundamentals are equally critical. For us, an excellent source of quality opportunities when we enter a new geography can be found in business models that we're familiar with. Their familiarity may be a result of us closely monitoring or investing in a successful peer in North America. While we find this is the easiest path to investing in a foreign country, it doesn't preclude us from identifying other attractive businesses.

Regardless of an opportunity's geographic origins we apply the same rigorous bottom-up investment due diligence for each business we invest in. This has been the reliable process that's contributed to our success in selecting countless profitable investments.

Accumulating Upside Optionality

The market value of our IBV Capital Global Value Fund decreased by 0.8% (net of fees) in the third quarter of 2021. While the intrinsic value of our portfolio increased by 1.3% during the quarter. For comparative purposes, during the third quarter of 2021, the MSCI World Index remained virtually unchanged[1].

In the last twelve months we exited our two anchor investments – Ascendant Group and FirstGroup Plc - crystalizing their overwhelming success. However, that's left us with a meaningful cash position at a time when market valuations are elevated.

With our historically high cash position, we now have the luxury of adding new investments to our portfolio without having to re-size or exit existing holdings. Therefore,

[1] "IBV Capital Global Value Fund" consists of USD$ IBV Capital Global Value Fund LP Class A master series 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 of MSCI World Free NR Index. Full investment disclosures can be found on Page 8.

we will be replacing our cash – that has a market value equal to its intrinsic value – with new investments that will have an intrinsic value that exceeds their market value.

The reinvestment phase we're in will have a positive impact on our intrinsic value gap until our cash position has reverted back to a level that's more aligned with historical average. The byproduct of this process will be an intrinsic value gap that will be increasing for the foreseeable future.

As a wide intrinsic value gap has historically translated into higher future returns for us, we anticipate this reinvestment phase being additive to our actual investment performance too.

As such, today, we're scouring developed markets around the world and finding more wonderful opportunities. We have already invested in a select few and they are naturally becoming our anchor investments of tomorrow.

When we combined the modest decrease in the market value of our portfolio with the increase in our intrinsic value, 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 41.8%.

The portfolio's cash– which we see as a low-cost option on opportunity – decreased by 6.7% as we increased the weighting of existing investments and deployed capital into a new name. This decrease took into consideration the offsetting impact of receiving cash during the closing of Great Canadian Gaming's sale to Apollo Global Management.

Home Away from Home

In Winnipeg, Canada, there is a successful auto body company, The Boyd Group Services (BYD). Over the last decade, its shares have increased in value by 2601%. An amazing outcome that's a direct result of the incredible shareholder value the company has created.

Considering their success, we have followed BYD closely. As a result, we recognize and appreciate the foundational elements of their achievements and are always looking for companies with similar characteristics.

When we pivoted to sourcing quality businesses in Australia – or other jurisdictions for that matter – we had already honed our process to help identify familiar business models to those that we appreciate and follow at home. We had recognized that these familiar businesses often enjoy similar operating successes despite being in a different locale. This is not coincidental. When a business repeatedly creates value for its customers, that business model often finds success regardless of where it's located.

After identifying AMA Group (AMA) as a potentially attractive investment, we recognized an opportunity to deploy this historically successful strategy. AMA is Australia's largest vehicle accident repair company. They have 180 panel repair shops across the country and enjoy an industry-leading 15% market share. This makes AMA dramatically larger than their nearest competitor.

Despite this competitive advantage, it did not spare them from the COVID-19 lockdowns that produced a dramatic decline in automotive travel for both personal and professional purposes. As miles driven dropped, so did the frequency of accidents. This put a dent in AMA's revenues and earnings.

Since Australia's lockdowns have been longer lasting and more severe relative to other countries, it has generated a uniquely persistent challenge in the accident repair business. However, these lockdowns are now being broadly eased in an effort to return to some normalcy. This will be a relief for AMA as we have seen local and foreign precedent that suggests the removal of these lockdowns will result in increased driving activity and – unfortunately for those drivers and their passengers - accidents.

An environment that produces more fender benders, but hopefully limited personal injuries, will allow AMA to return to executing their growth strategy. Building and buying auto body shops in a very fragmented industry.

Since the underlying economics of each body shop provide an excellent return on capital invested, this will result in strong future cash flow generation. This cash flow can and will be used for further expansion or returning to shareholders. Particularly now that management has eliminated most of their near-term debt obligations with a recent equity raise - an issuance we participated in.

From our perspective, the unit economics and a clean balance sheet make this business highly attractive to most strategic and financial acquirors. Unsurprisingly, prior to COVID-19, Blackstone attempted to purchase the company at a value that's higher than where it trades today. The deal was called off because the Australian tax authority refused to grant a tax-free spinoff of an AMA side business Blackstone didn't want – a business AMA recently sold. While AMA is a world away, with it exhibiting such similarities to BYD, we feel right at home.

When we have invested in the Canadian stock market it has produced attractive outcomes. Our investment in Great Canadian Gaming (GC) is another one of our local success stories.

We have been familiar with GC for a few years. During COVID-19 this company resurfaced as a potential opportunity. At the epicenter of our interest was a consistent theme we have identified in sound business models – the undertone of a monopoly.

For GC, this came in the form of an agreement with the provinces of British Columbia, Ontario, New Brunswick and Nova Scotia. Each province gave the company a multi-year long right to operate the vast majority of physical gambling facilities in their local markets.

While this should create a formidable business model, local COVID-19 lockdowns that prevented the gathering of large crowds rendered these agreements meaningless. However, with the benefit of a long investment time horizon – an advantageous perspective we can and frequently do hold - one can look past these temporary disruptive forces and see the underlying intrinsic value that's present.

During our due diligence process, it surfaced that Apollo Global Management had identified the same attractive features as we had. They sent a takeover offer to GC that its management and board subsequently accepted. This offer was intensely resisted by the company's largest shareholders for being too opportunistic, leaving Apollo with no choice but to walk away or raise their offer in an effort to gain acceptance. They chose to raise their offer and the resistance soon turned to acceptance.

During this period of deal uncertainty, we made an investment into the business. From our perspective, the deal had a high probability of being approved by the appropriate interest groups and subsequently closing. However, if that closing didn't transpire, we were prepared to make a larger investment if the share price declined as a result of the deal's failure. It's an excellent business and we would have enjoyed holding it for a long time. As far as we were concerned, this had created a win-win situation.

Under the premise that the deal would eventually be consummated, our annualized investment return became highly focused on the speed of the deal being approved and subsequently closed. As anticipated, it was, with little delay, and we exited the investment at the sale price of $45. This resulted in a low risk annualized IRR of 8.5%.

It's Time

During the pandemic's initial days, the virus' severity was so uncertain. We're deeply grateful that the loss of life has proven to be orders of magnitude less than what was originally feared[2]. We're also heartened that an effective vaccine is now widely available - in an increasing number of countries - to those wishing to receive it. These silver linings must be cause for hope.

The cloud remaining over this troubled time now comes in the form of lockdowns and economic aid. These pandemic remnants are threatening society's return to normalcy and future prosperity.

The implementation of lockdowns – a mechanism that has produced varying degrees of success while inflicting quantifiable and increasingly severe levels of distress – continues to have detrimental effects on the movement of goods and labor. What's more, these lockdowns are necessitating the deployment of aggressive financial aid. At this juncture it's plainly obvious that neither should be in place.

It's time for business and political leaders – of all parties and persuasions - to recognize and sympathize with the deep fear that has been seared into everyone's minds and chart a path forward with courage and hope. It's time for leaders to lead. We must do this, not just for our own wellbeing, but for that of all future generations.

[2] https://www.thelancet.com/journals/lanmic/article/PIIS2666-5247(21)00029-X/fulltext

The artificial environment we have created – financial and physical - in response to the pandemic is stifling the collaborative and innovative spirit that our world is built upon. It's leading to our children receiving suboptimal academic experiences and a young professional labor force without the comprehensive training that's necessary to mold them into our future leaders.

Fortunately, this experience has proven that we're still able to adapt in the face of adversity. However, it's a capability that's not new as mankind has exhibited it on numerous occasions before.

For many, it has also shown, unexpectedly, that we *may* be capable of maintaining the functioning of a weakened economy from the safety and familiar comfort of our homes. A counterpoint to this assertion is that we're accomplishing materially less, while experiencing materially more disruptive forces, despite having access to incredible levels of fiscal and monetary stimulus. This makes it too early to claim we have been successful on this front.

Unfortunately, there's also little evidence to suggest we should extrapolate the lackluster forward progress we're experiencing today as showing that we're capable of creating the thriving economy and society we need for tomorrow. Considering what's at stake and appreciating that this untested path forward – purposefully suppressing economic activity and permanently isolating large portions of our nation's workforce in their homes for most days of the week - it's only logical that we return to near pre-pandemic conditions. And quickly.

The purported benefits of our current trajectory are unclear and we're already witnessing that the probability and cost of failure is too high. Our leaders must tell people what they need to hear, not what they want to hear. The time is now for us to go back to what was, so we can go forward to achieve what can be.

Sincerely,

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