IBV CAPITAL

Q1 2017 Partnership Letter
April 2017

Dear Partners,

President Trump has only been in office for 70 days – although it feels like much longer – and already the market is weary of his ability to make quick and meaningful progress on his election agenda. Frankly, we're surprised that they're surprised.

There are 100 Senators and 435 Representatives in the Senate and House of Representatives, respectively. These 535 voting members of Congress all have agendas that they were voted into office to deliver on. Surprisingly, not all their agendas align – even when they're on the same "side". We witnessed the repercussions of this stark reality play out almost immediately, when the Republican Party failed to repeal and replace the Affordable Care Act – a cornerstone of their election mandate.

Imagine for a moment, having a corporate board with 535 voting directors. With that many voices, how much do you think would get accomplished in quick order? We suspect not much. Therefore, as we stressed in our previous letter, it's reasonable to assume meaningful progress on President Trump's agenda will be difficult to achieve. This is precisely why we continue to think it's foolish to invest in a company solely because a President takes a stance – regardless of how strong it is - on a topic.

On the other side of the pond, at the end of March, the United Kingdom invoked Article 50, prompting their official withdrawal from the European Union. Since the BREXIT vote, the Sterling has depreciated 9.9% against the Euro. Despite this and all the political hostility, economic growth and consumer confidence levels have held up well, which demonstrates the resilience of large economies to political shocks.

We do, however, anticipate that the exit process will be a long and arduous one. Already, British Prime Minister Theresa May has stated their desired negotiating framework – only for it to be summarily rejected by EU officials. While compromise will be necessary to achieve some form of agreement, the potential for these negotiations to shift dramatically over the next two years exists. In addition, the outcome of elections in France, Germany, and Italy – all of which are taking place before an agreement will be solidified - will significantly impact the stance the EU takes during these negotiations.

We often look to Europe (inclusive of the UK) for investments. Given the prevailing environment, we anticipate the frequency of interesting opportunities will increase there during this period of uncertainty, and we've already started to see this. Earlier this year, we established a position in Vertu Motors PLC, whose valuation declined significantly since BREXIT, despite the fact its business model will be largely unaffected. In Europe, we'll continue to look for opportunities that exhibit similar investment characteristics, though we suspect finding them will require both patience and discipline.

Return Expectations – It's Just a Matter of Time

The market value of our investment portfolio increased by 1.9% in the first quarter of 2017. Importantly, the intrinsic value of our portfolio advanced 4.2% during the quarter. For comparative purposes, during the first quarter of 2017, the MSCI World Index increased by 6.4%[1].

The difference between the intrinsic value of our portfolio – what we think our portfolio is worth – and the market value of our portfolio now stands at 43.0%. While this figure represents our current return potential, it also provides us with a foundation for building annualized return expectations. When we conceptualize our annualized return expectations, we consider the current difference between our portfolio's market value and intrinsic value, as well as how long it may take to close this gap. We find it helpful to think about returns in this manner because it becomes strikingly obvious that there are only two ways to improve annualized returns.

The first, and the one we speak about most frequently, is increasing the gap between our portfolio's intrinsic value and market value by making intelligent investments. Since we exert more influence over the size of the gap, we focus a disproportionate amount of time trying to maximize it.

The second factor is shortening the amount of time it takes before our investments' market value and intrinsic value intersect. We naturally have less control over the precise timing of when the market will realize the full underlying value of our positions. Therefore, opportunities with embedded catalysts can play an important role in facilitating better annualized returns. An optimal (and rare) situation, which we're always on the prowl for, is an investment that's significantly undervalued and has a catalyst to unlock the value.

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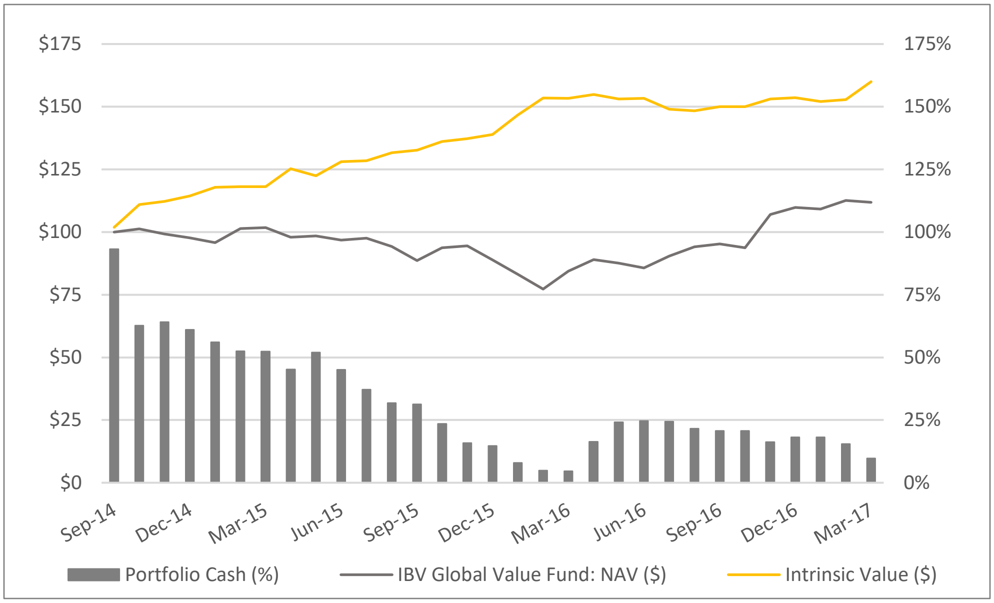
[1] **IBV Global Value Fund**" consist of USD$ IBV Capital Global Value Fund LP Class M unit returns, gross of fees. Inception date of this class is October 1, 2014. "**Portfolio Intrinsic Value"** represents IBV's internally calculated intrinsic value for the cumulative securities within the IBV Global Value Fund. "**MSCI World Index**" is based on the USD$ returns MSCI World Free NR Index. Full investment disclosures are found on Page 4.



In the first quarter, our portfolio's intrinsic value increased materially due to our investment activities in Vertu Motors PLC. To make this investment, we used our available cash reserves. Recall for a moment that our cash's market and intrinsic value are one in the same. So, when we use cash to make an investment, our portfolio's intrinsic value is disproportionately impacted when compared to a scenario where we replaced one investment with another. Following our Vertu investment, our cash position now stands at 11.2% - which is below our historical norm.

Portfolio Update – Driving Intrinsic Value

We're the proud new owners – partial owners I should say - of 125 car dealerships in the UK. We've long felt that automotive retailers (or car dealerships for everyone outside Wall Street), enjoy an excellent business model. However, it wasn't until recently that we found a dealership group -Vertu Motors PLC - that met our strict investment criteria.

Our investment thesis for car dealerships, and specifically Vertu Motors, is summarized below:

- Automotive retailers are asset-light businesses, that perhaps surprisingly, also enjoy high barriers to entry. Equally interestingly, although their revenues are cyclical, their gross profits are rather stable. This is due to attractive profit contributions from vehicle mechanical servicing as well as their financing and insurance business lines.
- Vertu has solid organic and inorganic top line growth opportunities. Further, their earnings potential is being masked by their acquisitive history.
- The company's balance sheet is pristine, offering both protection from unforeseen adverse events and the ability to acquire more dealerships in an accretive way for shareholders.
- Management has a proven track record of maximizing dealership profitability.
- Vertu's valuation is historically low and UK dealerships trade at a sharp discount to their North American peers.

Recently, we elaborated on these five points in an article we wrote for Capitalize for Kids - a wonderful local charity that supports a variety of children's brain and mental health initiatives through Sick Kids Hospital. Instead of providing a detailed account of our thesis as we typically do in our letters, we encourage you to read the full article on our website: Finding Value in Vertu Motors PLC.

IBV Capital – Bench Strength

We continue to deepen our bench strength, adding Brandon Thimer as an Analyst on our investment team. Brandon comes to us with experience in investment banking in New York and more recently at a Canadian hedge fund. An alma mater of the University of Lethbridge and an extremely passionate value investor, we're excited to have him onboard!

Over the past few months, we have garnered continuous media attention through our thought leadership pieces and by publishing our research on Vertu. Participating in these opportunities has been an enjoyable experience for the firm, as we look to educate investors about the markets and share more of our unique insights. With more articles in the works, we would encourage our readers to subscribe to our distribution list to stay informed, if you haven't already done so!

Sincerely,

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