IBV
CAPITAL

Dear Partners,

As 2018 came to a close, it was evident that financial markets were experiencing a heightened degree of anxiety. From our perspective, the cause of consternation may be attributed to uncertainty created by: persistent trade war threats, various geo-political events, slowing global economic growth, or all these factors combined.

We recognize that every period of market turmoil will have different drivers. While understanding these drivers is important, for investors, we believe there's far more value in understanding how to create an environment that will allow them to capture the opportunities presented during these periods of stress. We appreciate this, so we'll share our experiences in fostering this environment at IBV Capital.

Our evolution from a family office has afforded us unique and invaluable experiences that have deeply impacted us as investors and as a firm. As investors, it has shaped our investment philosophy and how we effectively execute our strategy. After we emerged from the family office, as an independent investment firm, we maintained the tangible structural advantages a family office enjoys. These benefits cannot be over-emphasized.

Since IBV's beginning, and before that as a family office, we have enjoyed a structural advantage by having an investible asset base that we refer to as *permanent flexible capital.* This type of capital naturally manifested into a few key IBV attributes: (1) an investment horizon that's much longer than usual, which allows us to think like owner-operators. (2) an intense focus on protecting against *our* definition of risk - the probability of a permanent loss in capital – and not a superficial risk proxy, such as volatility. (3) a deep appreciation of the valuable optionality generated by always having cash. Consistently, we've found that this approach has allowed us to be opportunistic buyers and avoid the wealth destruction that's inevitable when you become a forced seller. All these attributes would be far more difficult to cultivate if we didn't have this *permanent flexible capital* available to us.

As investors, we gained valuable experience watching the family office patriarchs growing their operating business. This imparted on us a wisdom that's translated directly into core tenets of our investment strategy: (1) the most efficient use of our internal resources and investor capital is to focus intensely on a few great investment ideas that fall firmly within our core competency – therefore, we'll always hold a comfortably concentrated portfolio. (2) Developing a core competency takes time, but it instills confidence in the investment decision making process. Fortunately, research, which is the foundation for building a core competency, is the part of investing we're most passionate about. (3) If we can't adapt to a changing environment, the success we're currently experiencing will eventually diminish. To combat this, we've embedded versatility into our strategy by adopting a very broad investment mandate. (4) Investing in assets whose value can be firmly tethered to conventional value indicators is easier to understand than an asset with no direct ties to value – so, we focus on intrinsic value and refrain from more speculative forms of investing[1].

Cultivating our firm's structural attributes and creating an investment environment that promotes continuously making sound investment decisions, even during volatile markets, isn't enough. We believe an investor's emotional temperament must align perfectly with their investment approach – otherwise the risk they'll fail to execute the strategy is too high. The importance of this connection is often under-appreciated. For us, our firm's disposition allows us to be comfortable as independent thinkers. This has translated directly into an ability to pursue making investments that fit our strategy, despite it being very uncomfortable – sometimes gut-wrenching – to do so.

As we consider how we've combined all these elements, our attention is drawn to a common question we receive: What's your edge? We believe it's very difficult to create an enduring edge from a single variable. Instead, for an edge to persist, in any business, it must be derived from a combination of many different tangible and intangible attributes. This type of edge is far more difficult to replicate. At IBV Capital, our edge is the unique combination of our firm's temperament, our structure, and the core tenets of our investment strategy.

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[1] It'll be rare that you see our firm take investment positions in the likes of bitcoin, our generation's tulip bulb.

Investment Performance

The market value of our IBV Capital Global Value Fund decreased by -11.2% in the fourth quarter of 2018, contributing to our 2018 performance of -1.2%. Importantly, the intrinsic value[2] of our portfolio advanced by 0.1% and 35.8% during the quarter and year-to-date periods, respectively. For comparative purposes, during the fourth quarter of 2018, the MSCI World Index declined by -13.4%, bringing its 2018 performance to -8.7%.[3]

Boxing Day Sale

Throughout the fourth quarter, we carefully examined the valuations being applied to our existing portfolio – a group of companies we know well. Despite heightened market anxiety, we determined the underlying business fundamentals of the companies in our portfolio were intact. At the same time, we identified that interesting investment opportunities were beginning to surface at a rapid pace.

On Christmas Eve, during the pinnacle of uncertainty in 2018, the IBV team collaborated over a few calls and we concluded that select companies in our portfolio, specifically our U.S. financial institutions and a basket of rate reset preferred shares, were attractively priced and warranted increased investment. So, on Boxing Day, when markets re-opened, we began increasing our stakes in these securities. We believed this was both a safe and expeditious way to deploy capital into a market that was increasingly exhibiting signs of dislocation.

The starkest dislocation in markets was evident in our U.S. bank stocks: Bank of America and Citigroup. Over the fourth quarter, both companies suffered declines in their market values, despite limited signs of change to their underlying economics. These declines overwhelmed the performance of other investments in our portfolio – a few of which exhibited non-correlated market characteristics, such as Ascendant Group.

The market value of Ascendant Group, our Bermuda-based conglomerate that wholly owns the country's sole integrated electric utility, was entirely unaffected by the market's recent turmoil.

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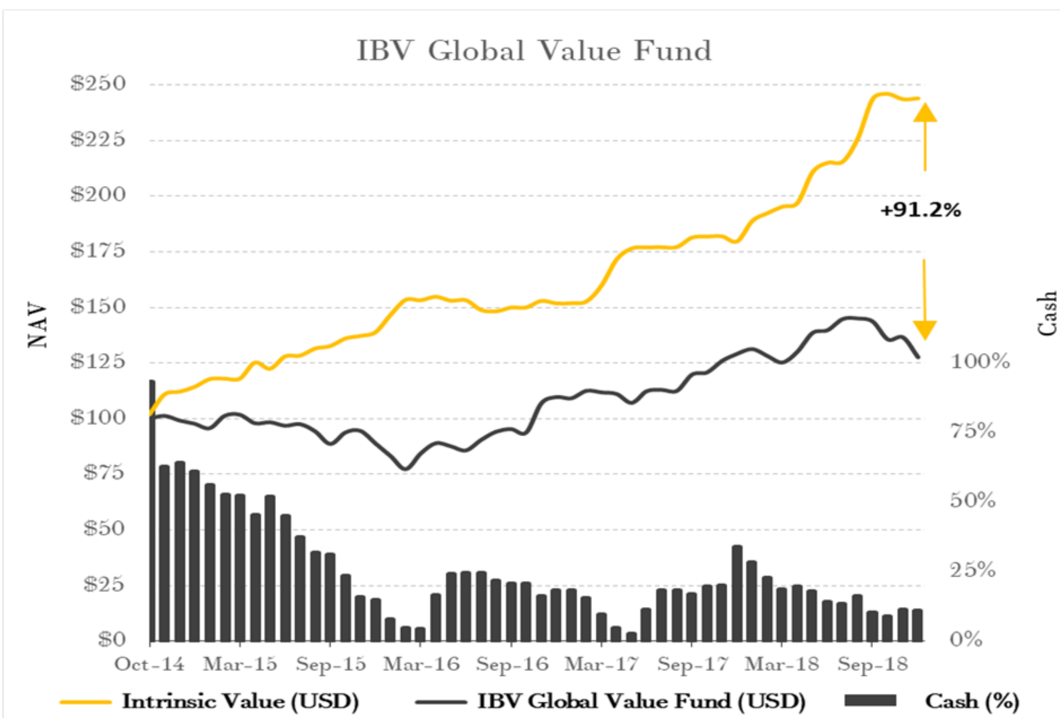
[2] We would encourage all new readers to visit the "Our Liquid Conglomerate" section of our Q2-2016 investment letter to assist them in understanding the meaning and importance of our portfolio's intrinsic value

[3] "IBV Global Value Fund" consists 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 can be found on Page 10.

In fact, over the course of 2018, the company's shares generated a 77.2% return, including dividends, as management has taken steps to unlock shareholder value.

During the third quarter, we sold a few of our positions that had reached their intrinsic values and re-allocated that capital to fixed income related investments. Our research shows that this basket of securities enjoys an asymmetrical risk-reward profile. Following the investments we made during the last few days of the year, this exposure now represents 14% of our portfolio. For 2019, we anticipate this basket providing an attractive and stable source of returns while our other portfolio positions realize on their outsized upside potential.

Over the quarter, the underlying fundamentals of our portfolio companies didn't change much, but we did reduce our cash position in favor of increasing our allocation to select existing investments. Combined, this dynamic increased our portfolio's intrinsic value. At the same time, the market value of our portfolio fell, offsetting the great gains we experienced earlier in the year. As a result, the gap between the intrinsic value of our portfolio – what we think our portfolio is worth – and the market value of our portfolio, has increased to 91.2%, the second-widest intrinsic value gap in our fund's history.

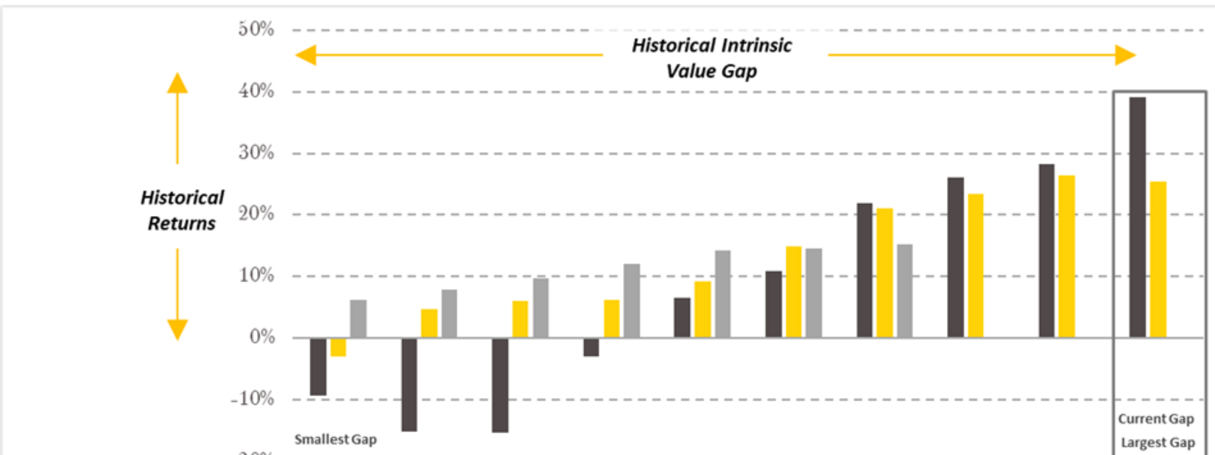


Throughout periods such as the one we just experienced, our practice of maintaining a firm understanding of the health of the underlying drivers of our portfolio's intrinsic value has been a valuable tool. Internally, it provides us with confidence to make individual investment decisions.

For our investment partners, we calculate an intrinsic value for our entire portfolio, which lends transparency to the changes in our portfolio's underlying fundamentals and gives insights into the fund's future return potential.

In the past, we have disclosed that our investment efforts are to consistently increase the intrinsic value of our portfolio, with the expectation that the market value of our portfolio will gravitate towards this intrinsic value over time. In making this statement, we're suggesting that a relationship exists between our portfolio's intrinsic value gap and future returns. For instance, during periods where the intrinsic value gap is widest, we believe the fund's future return potential will be at its highest. Conversely, during periods where the intrinsic value gap is narrowest, our future return potential will be lowest.

To confirm this relationship exists, we analyzed our realized returns as they relate to our portfolio's historical intrinsic value gaps. The outcome of this analysis for the fund is in the graph below.



	10th Decile	9th Decile	8th Decile	7th Decile	6th Decile	5th Decile	4th Decile	3rd Decile	2nd Decile	1st Decile
1-Year Annualized Return	-9%	-15%	-15%	-3%	6%	11%	22%	26%	28%	39%
2-Year Annualized Return	-3%	5%	6%	6%	9%	15%	21%	23%	26%	25%
3-Year Annualized Return	6%	8%	10%	12%	14%	15%	15%	n/a	n/a	n/a

To conduct our analysis, we calculated our intrinsic value gap, on a monthly basis, since our fund's inception. These monthly intrinsic value gaps were then separated into 10 deciles,[4] ranging from our narrowest historical intrinsic value gaps (on the left) to our widest historical intrinsic value gaps (on the right). For each of these 10 deciles, we calculated the one, two, and three-year

[4] A decile is a method of splitting up a set of ranked data into 10 equally large subsections.

annualized returns that our investors have earned.[5] Using the graph above, during months when our intrinsic value gap was closer to its long-term average, decile five, over the next one, two, and three years, our investors have earned an annualized return of 11%, 15%, and 15%, respectively. As we move to the right on the chart, to months where our intrinsic gap was the widest, in the first decile, our investors earned one and two-year annualized returns of 39% and 25%, respectively.[6]

It is evident from our analysis that a discernable relationship exists between the width of our intrinsic value gap and future returns. Today, our portfolio's intrinsic value gap is firmly in decile one, so we're quite pleased with the fund's future return outlook.[7]

Divergence

During the first three quarters of the year, U.S. economic data indicated that consumers and businesses were optimistic and performing quite well. The debt and equity markets were enthusiastically reflecting this underlying reality. Then, abruptly, the markets and economy significantly deviated in their trajectory. The economy has continued to grow, but markets fell dramatically. The divergence was most dramatically displayed in our Bank of America and Citigroup positions.

At both companies, the conditions for an improved revenue growth outlook can be seen in the quality and growth of their core deposit base. Their core deposit bases, which are essentially a cost-effective form of borrowing, is what will allow these banks to grow their lending practices and consequently their profits. Interestingly, not all banks are enjoying core deposit growth. For most smaller financial institutions, we're seeing that organically growing their core deposit base is very challenging, which is leaving them at a distinct competitive disadvantage to Bank of America and Citigroup.

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[5] We believe the probability our annualized return beyond the third year would be impacted by investments not in the portfolio at the time we calculated the intrinsic value gap would be too high, so we've eliminated those returns from our analysis.

[6] This material is not meant to be, nor shall in be construed as, a representation as to past performance, and no assurance, promise, or representation can be made as to actual returns. Past performance is not indicative of future results.

[7] Since our managed account performance dates back to January 1, 2011, we were able to perform the same analytical exercise with 96 months of data. As Appendix A will show, the relationship between our intrinsic value gap and future returns has persisted for longer periods than our fund's inception as well.

With Bank of America and Citigroup enjoying a steadily growing deposit base, each institution has been able to grow their assets. They've also improved their operational leverage by aggressively cutting expenses. Despite the magnitude of the expenses they have already cut, we believe more progress remains possible. This is all factoring into improving profitability. Importantly, this profitability is almost entirely distributed to shareholders in the form of dividends and aggressive share repurchase programs. All considering, we remain very pleased with the trajectory of both firms.

Ascendant Group, and specifically its subsidiary, Bermuda Electric Light Company (BELCO), didn't experience meaningful operational or regulatory developments over the course of the quarter. At this juncture, we're awaiting the conclusion of an extensive comment period on the tariff methodology being proposed by Bermuda's Regulatory Authority. Once this process is concluded, a rate-case application for both its transmission and distribution as well as generation business will be made.

Currently, BELCO's eligible to earn an 8% return on equity. However, since BELCO had no meaningful debt on its balance sheet when this return was granted, it effectively equates to the company being eligible to earn an 8% return on rate base. We are encouraged by the earnings potential this return on rate base precedent has set.

We purchased Trinity Industries on the basis that a lawsuit in its highway products business was frivolous and obscuring the value of the company's underlying businesses. Besides overcoming the lawsuit, we also believed the company's infrastructure-related businesses – construction products, energy equipment and transportation products – should be separated from its rail car manufacturing and leasing businesses. Our analysis showed that the two businesses didn't complement one another well and were preventing the rail car business from optimizing its balance sheet. To us, the need for a separation of the businesses was obvious and would create significant shareholder value.

In late 2017, the highway product lawsuit Trinity was found guilty of was overturned, unlocking the company's ability to proceed with a structural reorganization. It wasn't long before Trinity announced they would spin-off their infrastructure-related businesses into a new publicly traded entity called Arcosa. On November 1st, the spin-off was completed, and we received our allotment of Arcosa shares.

Once separated, Trinity Industries, the stand-alone rail car business, became unburdened by the cyclical nature of the infrastructure business. We were pleased when Trinity Industries announced that the company had secured additional financing against their wholly owned leased rail car portfolio, and that the capital would be utilized to conduct an accelerated share repurchase program.

From a financial-engineering standpoint, a lot of heavy lifting has been completed to unlock shareholder value. This happens to be coinciding with increased rail car demand following years of improving U.S. economic growth. We're very pleased that our investment thesis is continuing to play out as we had anticipated.

Expanding Team

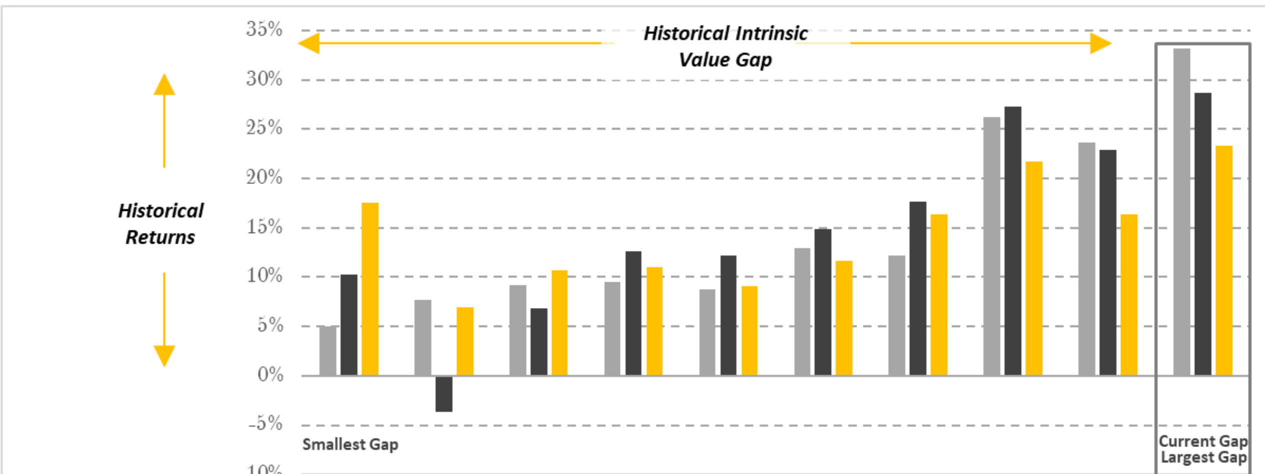
We expanded the IBV team again on October 11th when my wife, Stephanie, and I welcomed our second son, Bryce McCoy Babineau, into the family. His older brother, Hudson, is thrilled that Bryce is finally here – after what felt like an eternity of waiting. As for Stephanie and I, we've gone from playing zone defense with one son to man-to-man coverage with two boys, and we're loving every minute of it.

Sincerely,

Talbot Babineau, CFA
President & Chief Executive Officer
T: 416.603.4282 | tbabineau@ibvcapital.com

APPENDIX A

To enhance the robustness of our analysis on the relationship between our intrinsic value gap and future return, we conducted an identical assessment for a composite of our managed accounts. This provided us information dating back to January 1, 2011, or 96 months of data. The outcome of this analysis for the managed account composite is in the graph below. It is consistent with our findings during the analysis we conducted for the IBV Capital Global Value Fund.



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2-Year Annualized Return	10%	-4%	7%	13%	12%	15%	18%	27%	23%	29%
3-Year Annualized Return	18%	7%	11%	11%	9%	12%	16%	22%	16%	23%

Disclosures:

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