

Dear Partners,

Earlier this year, unsettled markets, stemming from China's economic slowdown and the precipitous decline in commodity prices, provided us with a brief window of opportunity. We took advantage of it by investing further in Bank of America and Citigroup, bringing our cash position to 6% of the portfolio, down from 52% a year earlier.

As global fears ebbed, our portfolio's value increased quickly. During this ascent, our investment in Colfax Corporation and Madison County Financial reached their intrinsic value, prompting us to sell them (more on these later). While we usually reinvest sale proceeds into other opportunities, we did not on this occasion, instead opting to hold cash. This portfolio repositioning, which increased our cash holdings to 25%, reflects our negative sentiment on stock market valuations and interest rates. Our decision to hold cash quickly proved beneficial, as the financial world was upended by a surprise vote across the pond in the United Kingdom (UK).

We were disheartened to see the UK vote to leave the Europe Union (EU). Economically and politically, it is difficult to see the benefits of separating from a partner with such economic might and global influence. We're afraid the younger generation, who voted overwhelmingly to remain, will ultimately bear the burden of this decision.

We've always found it helpful to view events such as this one in a historical context. For the UK, there are few obvious comparable historical events that may act as a guide in terms of the social, political, and economic consequences. While important, we will put the social and political implications aside, and focus on the meaningful economic impact we anticipate unfolding in the UK - though not necessarily for the remaining 27 EU members. Today, the UK's GDP is \$3 trillion or 3.8% of global GDP. Should their economy fall into a deep and prolonged recession, similar to the Great Recession recently experienced by the United States, nearly \$150 billion of GDP will be lost. While this is a material figure to the people of the UK, this adverse impact only represents 0.18% of global GDP.

Despite its globally insignificant impact, stock markets around the world reacted with an unmeasured response, shedding \$3 trillion in value in the two days following the vote. Should the UK and global stakeholders find common ground on the many important items that need to be addressed during the separation, the consequences of this vote on global markets may very well cause even less harm. Only time will tell what the outcome will ultimately be as the country is just now embarking on a multi-year journey of uncertainty and instability.

Our Liquid Conglomerate

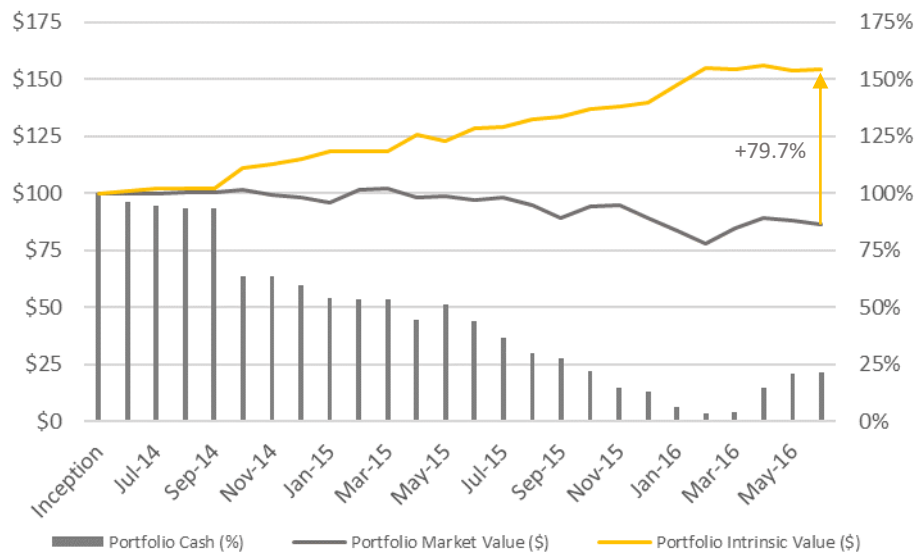
To us, every share of a company we own represents a partial ownership interest in the business, not merely a tradable piece of paper. This concept is at the core of our investment strategy and explains why we view our portfolio as an accumulation of partially owned businesses - a liquid

conglomerate if you will. Viewing our portfolio in this way helps us assess and manage opportunities and risk. It also shapes our thoughts on the future return profile of our portfolio. A concept we will now elaborate on.

Each investment we make has two values. The market value and an intrinsic value. The market value is exactly that, the value that you can purchase an investment at in the open market. We share the market value of our portfolio, a sum of the market value of all our investments, in the statements we send our Partners each month.

On the other hand, the intrinsic value of an investment is what we determine a particular investment is *really* worth. Similar to calculating our portfolio’s market value, we sum the intrinsic value of each investment we own to arrive at our portfolio’s intrinsic value. While this is a very important number – so important that we focus all our time and effort on it - it’s not found on our investment statements.

The reason this number is so important is because the difference between the market value and the intrinsic value represents not only our margin of safety, but also the absolute return we expect to make at a given point in time. Today, that expected absolute return is +79.7%. A graphical depiction of this concept since our Fund’s inception is below.



As you can see, over time, the margin of safety that we calculate will change. This change will be a function of buying new investments, selling existing ones, and making alterations to the intrinsic values of the investments we hold due to changes (positive and negative), in their underlying fundamentals. Our margin of safety may also change due to the fluctuating market value of our existing portfolio. It’s important to note that our goal is to simultaneously maximize the portfolio’s margin of safety and our expected absolute return by increasing the intrinsic value of our portfolio through sound investments – with the understanding that actual returns should eventually follow.

Over the last year we have deployed a considerable amount of cash into sound companies at prices far below their intrinsic value. This deployment of cash, combined with recent improvements in some of these companies underlying businesses, explains the gradual increase in the intrinsic

value of our portfolio. We're accustomed to markets not immediately reflecting these improvements in market prices (patience is a virtue in investing), which is why our margin of safety and expected return has increased over time.

In this quarter, the value of our portfolio (the grey line) increased by 1.6%¹ and the intrinsic value (the yellow line) was flat. During the quarter, the broad equity market, which is captured by the MSCI Global Index, increased by 1.0%². We look forward to more good quarters ahead.

Portfolio Update

Coincidentally, the Federal Reserve released the overwhelmingly positive results of this year's bank "stress test" on the same day the world experienced an unexpected financial shock in the form of the UK's vote to leave the EU. The underlying strength of the United States' financial system, with 30 of the 33 participating institutions passing, was definitely overshadowed by this event. In the case of our investments, Bank of America and Citigroup, the "stress test" results were a clear victory. Their capital and liquidity positions far exceeded the required levels after being subjected to the hypothetical severe adverse scenario administered by the Federal Reserve. This allowed both to announce plans that will see them return considerably more profits to investors this year through dividends and share repurchases. Bank of America increased their dividends by 50% and share repurchases to \$5 billion. Citigroup increased dividends over 300% and will conduct \$8.6 billion of share repurchases. To put these buybacks into context, if our banks instead directed their share repurchase activities to acquisitions (an unlikely strategy), together they could buy North America's 17th largest bank - each year! Needless to say, with prices below book, we're thrilled about the share repurchase programs our two banks have announced.

Turning to our investment in Trinity Industries, in December 2015, the renewable electricity production tax credit in the United States was extended until 2019, positively impacting the financial viability of building wind farms. While this renewal has occurred on many occasions, before it does, investments in wind farms usually fall dramatically. Once the tax credit was extended and clarity prevailed, investment returned and Trinity quickly received a \$940 million wind tower order, nearly four times Trinity's prior backlog. We're delighted that future production visibility has meaningfully improved for this business unit, which we anticipate translating into better margins and operating profits.

With respect to the broader macroeconomic environment, our portfolio has been facing some exogenous headwinds. We made our investments knowing these headwinds existed because history clearly indicates that they are temporary in nature. For our banks, low interest rates are impacting near-term profit potential. We made our investment in Bank of America and Citigroup specifically because they have other means of improving their bottom line. As a result, we are not reliant on higher interest rates to be successful, although it would be extremely beneficial. National Oilwell Varco has been troubled by a reduction in oil drilling spending. During past downturns drilling activity always improves to offset the unsustainable declines in oil exploration and extraction investment that occur. With a 62% drop in global rig counts, a by-product of the combined \$380 billion in delayed investments, production levels have begun to

¹ IBV Capital Global Value Fund LP - Class M Master Series, Gross USD\$ Returns, June 2nd 2014 Inception

² MSCI World Free NR Index USD\$

weaken. Considering global demand is rising, increased production and therefore investment will need to return. If you may recall, our investment is ultimately predicated on the volume of oil produced over the long-run, not on its price. We anticipate the positive impact these two eventual shifts will have on our portfolio to be material.

Our Margin of Safety in Action

Last fall, we purchased the shares of Colfax Corporation, which is a manufacturer of fluid, air, and gas handling equipment for the power generation, oil & gas, and marine industries. They are also one of the largest manufacturers of welding and cutting tools in the world.

We like the type of equipment Colfax manufactures because they are considered critical components to continuing operations. This is an important characteristic that we look for when investing in machinery companies. Despite the critical nature of the products Colfax produces, with commodities having spent the better part of two years falling in value, demand for them had been waning. We saw the pressure on demand, which had translated to the company being ascribed a very low valuation, as an opportunity to make a sound long-term investment.

In addition to the types of products they sell, we also thought very highly of management. The Rales brothers have a long successful track record of building businesses in fragmented markets, not unlike those faced by Colfax. Their success, in some part, can be attributed to a unique operating model they put in place at all their companies. This model was adopted by Colfax - known as Colfax Business Systems - in the 1990's after being perfected in the brothers' \$55 billion medical device manufacturer business, Danaher. It has proven to be a very effective system for maximizing shareholder value.

While the products and management were very attractive features of the company, by early 2016, the end markets they serve were showing more acute signs of strain. It became apparent that not only would sales be depressed for longer than we had projected, but further costly belt tightening may be necessary.

In the long run, we suspect Colfax will do very well. They dominate the markets they're in and the company certainly isn't shy of making acquisitions to supplement organic growth. However, it became a concern of ours that the long-run benefit was too far off, diminishing our annualized return expectations to something we were not comfortable with. This realization prompted the sale of our position for a sound profit.

Our decision to exit Colfax is a perfect example of our disciplined approach to exiting an investment when the fundamentals change. It also reflects our views on the opportunity cost that exists in investing – a cost that is tremendously underappreciated by many investment professionals. Lastly, it proves that investing with a substantial margin of safety can result in making a profit even when an adverse change occurs. We're pleased with how our investment in Colfax turned out and a company of this quality will always have a place on our shopping list.

A Base Hit

We are fans of financial companies, especially North American banks. As intermediaries of nearly all personal and business financial interactions, they're at the epicenter of the economy. In some

instances, especially in small towns, they're the backbone of the local community. While banks exhibit qualities we see as attractive, the landscape in the industry has long been shifting, and it is creating distinct winners and losers.

In the 1960's there were nearly 13,000 banks in the US of which the top 10 held 21% of the banking industry's assets. Today there are approximately 6,100 FDIC regulated deposit taking institutions with just over 5,600 of these institutions being small community banks. In 2015, according to the Federal Reserve, the top 5 institutions (we own two of them) held nearly 45% of the industry's assets. An unmistakable trend of consolidation and market share accumulation has been taking place at the upper echelons of the banking systems for decades and is showing no signs of slowing.

Community banks, while large in number, make up a surprising small portion of total assets, around 25%. However small, these banks are particularly interesting to us because if managed appropriately, many can enjoy brisk organic and inorganic growth. There is a caveat. Without growth, most small community banks will struggle to survive in their current form due to the increasing burden of regulation, increasing operational costs, intense competition from larger banks, and now a burgeoning fintech industry. In other words, growth is a pre-requisite to success.

In the case of Madison County Financial (MCBK), we found an ideal community bank. Operationally, the bank was extraordinary. They were experiencing deposit and loan growth, exhibiting good expense management, had very modest loan losses, and were very well capitalized. Equally important, they had completed successful acquisitions in the past. Our many conversations with long-time CEO, David Warnemunde (he goes by Jeff), and local competitors, gave us further comfort in their ability to grow and avoid the common pitfalls - such as bad lending practices - which are experienced by banks of all sizes. With shares trading at less than book value, we were confident an investment in MCBK had a very high probability of success.

Ever since we purchased nearly 2% of the bank, operationally, things went very well. Deposits and loans continued to grow and so were profits - helped by management's ability to keep expenses in check. In addition to operational success, they also completed a small acquisition in an adjacent market that we envision will do quite well.

However, we are of the opinion that more could be done to grow the business. Specifically, we felt that they should have taken the role of a community bank consolidator. With such a strong and conservative operational team, we felt this approach would do wonders for creating long-term shareholder value, thereby taking our "base hit" and turning it into a "home run."

We expressed our thoughts about acquisitions to Jeff. While he showed interest, it became evident that the frequency and scale of acquisitions we felt was needed to transform the company was not going to occur. Without addressing the headwinds they will face over time by remaining small, as well as a cost-cutting step that saw the company re-listed on another exchange (a measure we firmly and vocally opposed), it became evident that we needed to move on.

With profits in hand, we looked to sell our position and thought the bank itself would be a natural buyer. We called Jeff and expressed our desire to sell. He expressed an interest in buying our shares, but first needed to expand the company's pre-existing share repurchase plan to

reflect the size of our position. Subsequent to our discussion with Jeff, MCBK's board approved a revised share repurchase plan and we sold our shares on the open market to the bank. It was a tidy exit of a solid investment, one made possible by the wonderful relationship we built with management.

Always an Open Door

It was important to us that we touched base with our Partners shortly after the outcome of the UK referendum was known so we could share our insights. I'm glad I was able to personally speak with so many of you. As I've said in the past, the team and I are always happy to "talk shop", so please don't hesitate to contact us.

Sincerely,

A handwritten signature in black ink, appearing to read 'TB' followed by a horizontal line.

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