IBV CAPITAL

Dear Partners,

If you haven't already heard, value investing is dead…

While we acknowledge that the Russell 1000 Growth Total Return Index *has* outperformed the Russell 1000 Value Total Return Index by 200.7% over the last 11 years, personally, as an established value investor who generated a 35.2% return this year, we feel the widespread reporting of our strategy's untimely death has been greatly exaggerated.

Granted, broadly speaking, one can argue that value investing hasn't been carrying its weight. However, this *is* a recent phenomenon. According to the two indices mentioned above, which date back to 1979, on a cumulative basis value investing has only fallen behind growth investing on 5 occasions. Coincidentally, the Dot Com era represents the only other period that growth investing outpaced value investing with the frequency and magnitude we're seeing today.

Despite the present challenging period, cumulatively, value has outperformed growth investing by 1,031% over the last 40 years. It's also worthwhile highlighting that value investing outperformed during the most intense moments of the Great Recession, Dot Com bust, and Black Monday stock market crash – signifying a durability that is consistent with being deemed an all-weather strategy.

While the long-term benefits of value investing are well supported, from our perspective, the return dynamics we're witnessing today aren't surprising. In recent years, we've seen a technological revolution that's been widely - sometimes indiscriminately - supported by the market. This environment has become a natural catalyst for successfully executing a growth investing strategy.

To emphasize our point, consider this, of the top 10 highest valued companies in the S&P 500, the top five are technology companies.[1] At a combined value of five trillion in market capitalization, these companies equate to the GDP of Japan – the world's third largest economy. The youngest, Facebook, which was founded 16 years ago, has reached a valuation that handily exceeds JP Morgan & Chase – a company with a history dating back 221 years.

For such comparatively young companies, these valuations are remarkable. Particularly when compared to the old-world companies that are often contained in a conventional value investor's portfolio. Many of these old-world companies have faced considerable sustained headwinds. For

[1] Technology companies; Apple, Microsoft, Alphabet, Amazon, Facebook. Non-technology companies; Berkshire Hathaway, JPMorgan & Chase, Visa, Johnson & Johnson, Wal-Mart.

instance, retailers were overwhelmingly impacted by the Great Recession and now they're being disrupted by technology companies. Since these technology companies are effectively capturing the customers and revenues – albeit not always profitably - of their old-world incumbents it suggests that the valuations underlying these technology companies may not be entirely without merit. Therefore, partially explaining today's divergent performance trends.

While we acknowledge the valuations of a few of these technology companies is warranted, we also appreciate that the broad success of growth investing is highly susceptible to the slightest deterioration in economics and sentiment. What precipitates the end of its effectiveness usually ranges from an event as conventional as monetary tightening to something as unconventional, and unpredictable, as a highly contagious virus originated half a world away.

Since value investment strategies have endured a dramatic and sustained shift in fortunes, it's important to revisit the merits of the strategy, such as its durability during periods of market stress and long-term outperformance. To compliment this, we have identified three paths that today's value investors seem to be taking in the face of this current adversity and provided our thoughts on each one.

Staying the Course

At its core, value investing encapsulates fundamental truisms that are difficult to refute. Our firm appreciates the broad and nuanced benefits of the strategy, which is why the value Kool-Aid courses through our veins.

Unfortunately, we find that the term "value investing" has been so heavily used since Benjamin Graham wrote his seminal textbook *Security Analysis* that its very meaning has been diluted. Its application is also often inconsistent with the original concept he identified. To address the potential pitfalls associated with any definitional inconsistencies, internally, we're very specific in how we define value so we can always determine if we're on course.

For instance, we're "Absolute" value investors. To us, this means that the intrinsic value we apply to a security – what we believe a security is worth – is based on a long history of qualitative and quantitative performance metrics. Our approach does not place much weight on present performance comparisons.

We place an emphasis on understanding how a security will be impacted throughout the different phases of the business cycle. We also apply this detailed assessment to its peers, so we have the appropriate context prior to making any investment decisions. This multi-layered approach has proven effective in executing what we deem to be an absolute value investing strategy and gives us confidence to stay the course.

Expanding the Investible Universe

If your investible universe no longer produces investible ideas in accordance with the investment style your applying, a strong argument can be made that you should expand your investible universe. In doing so, this effectively increases the probability of successfully finding good investments *and* maintains the investment style.

We began with a go anywhere investment mandate. It provides us with the flexibility we need to give us the comfort that regardless of the market environment we're in, we'll be capable of finding good investments. As a result, our portfolio is often comprised of traditional and non-traditional securities in different geographical markets and asset classes. Our history indicates that we have effectively applied our absolute value investment philosophy throughout a variety of investment environments.

For instance, during periods when markets were broadly distressed and deploying capital was considered contrarian, we invested in traditional securities, such as large U.S. banks. An investment that wouldn't be deemed unconventional if it were made today. When opportunities become less abundant, as they are today, we flex our go anywhere mandate to include unconventional geographies, such as Bermuda, and invest throughout the capital structure in the form of non-traditional preferred share and debt exposures. This go anywhere capital is a facet of our approach that was designed to ensure we can execute an effective all-weather strategy.

A Style Drift

The most dramatic change one can make is to alter your core investment style. In investing parlance, this is known as style drift. Unfortunately, most investors don't precisely define what value means to them so performing an honest self-assessment to determine whether they're still on course is challenging. Equally important, most investors don't have the benefit of a go anywhere mandate. So, when these dynamics are combined, it becomes apparent that when the frequency of opportunities that are attractive wanes, the easiest way for most investors to adapt is by gradually changing their investment style.

For those value investors that have suffered a few years of underperformance, we appreciate that they'd be inclined to capitulate and change to an approach that's recently been effective – growth investing. Today, this is coming in the form of a shift towards investing in high growth companies – or compounders – that are trading at a "reasonable price". An investment style known as Growth At a Reasonable Price, or *GARP*. This is effectively growth investing through a value investing lens.

We would suggest that the timing of this style drift is particularly poor and fraught with risks. To us, growth investing's effectiveness usually coincides with a period of sustained economic growth and free-flowing capital - an environment we're arguably in now. This environment provides a partial rationale for why growth expectations and consequently valuations are becoming unreasonable for many of these growth companies.

While changing your core investment style may represent the path of least resistance to potential near-term success, we're confident that growth investing only works some of the time. On the other hand, a clearly defined and well-maintained absolute value investment strategy that utilizes an expanded universe is better designed to withstand the test of time.

A Good Year

The market value of our IBV Capital Global Value Fund increased by 1.1% (net of fees) in the fourth quarter of 2019, contributing to our 2019 performance of 35.2% (net of fees). Importantly, the intrinsic value of our portfolio advanced 4.8% and decreased by 6.3% during the quarter and year, respectively. For comparative purposes, during the fourth quarter of 2019, the MSCI World Index increased by 8.6%, bringing its 2019 performance to 27.7%.[2]

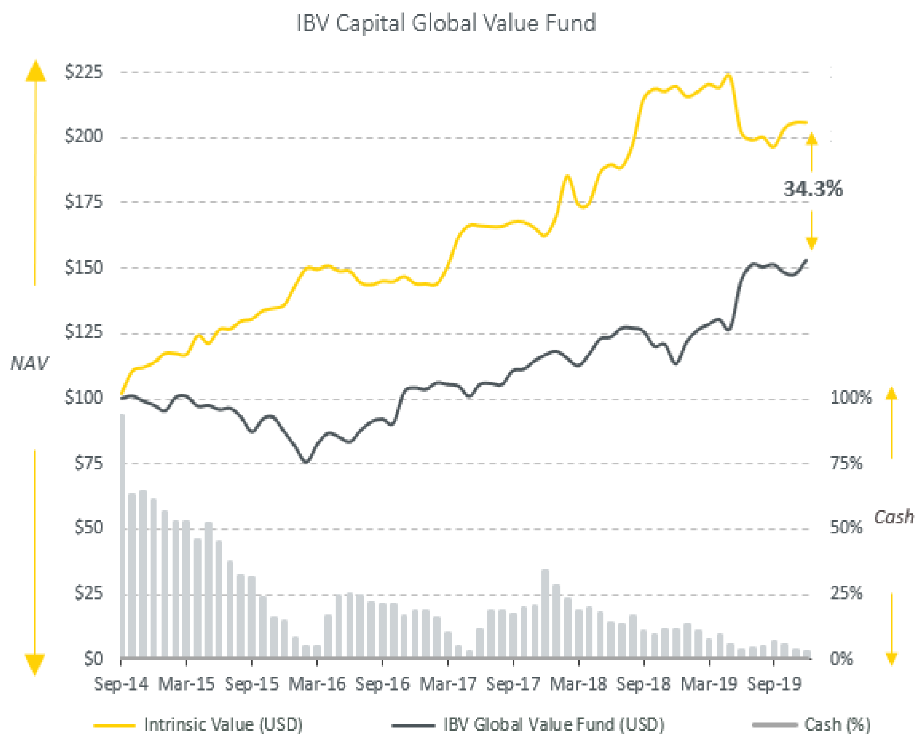
From the onset, we have extolled the virtues of investing with permanent flexible capital. There are many benefits to this approach, one being the flexibility to invest in a variety of securities with embedded catalysts and giving those securities the appropriate timeframe for the individual investment theses to come to fruition. We continue to identify and invest in opportunities with these characteristics and look forward to seeing them build on our Fund's three-year annualized return of 13.8% (net of fees).

We usually receive a positive contribution to our performance from our investment in Ascendant Group (AGL). In the fourth quarter, AGL's stock price slightly declined on very limited trading volume, leading to a negative attribution for the position. Despite this near-term impact, it does not change our expectation that the last leg of positive performance from AGL will come when its sale to Algonquin Power & Utilities closes in 2020.

Our investment in DaVita (DVA) and U.S. financial institutions more than offset the performance drag from AGL, leading us to a positive quarter end. For DVA, we continue to envision this investment being highly accretive to the portfolio as our investment thesis comes into focus. Our U.S. financials have long provided us with attractive returns, albeit with higher volatility (but not risk). This performance is a result of their continued earnings growth and aggressive way they're returning capital to shareholders through dividends and share repurchases. While our U.S. financial investments may appear conventional today, they were purchased during a very distressed period for markets resulting in them being an unconventional investment at the time.

Today, as a result of our successful investing activities, the gap between the intrinsic value of our portfolio – what we think our portfolio is worth – and the market value of our portfolio has narrowed to 34.3%

[2] "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 8.



Our cash position has been at very modest levels during 2019, finishing the year at 2.7% as opposed to the 23% average cash position we've held since the Fund's founding. We anticipate our cash position changing over time, with a high probability it begins returning to historical levels. However, this may occur in a lumpy fashion as a few distinct investments come to fruition and our exit comes into view.

It should be noted, we do not take a one-in-one-out approach to building our portfolio. This is because we believe that this practice comes with inherent risks. Specifically, the unintended consequences of holding an investment that should be sold only because an attractive replacement hasn't been found. As you can see, even at this granular level we're actively eliminating artificial constraints that may negatively impact our decision making.

Driving Forward

In June 2019, we disclosed that Ascendant Group, the owner of Bermuda's electric utility, was presented with a $36 per share all cash takeover offer by Algonquin Power & Utilities Corp. This represented a 115% premium to the stock price immediately prior to Ascendant's January 2019 announcement of a strategic review to unlock value for its shareholders. By August, shareholders had approved the deal and the subsequent step of gaining regulatory and government approval was initiated. We are awaiting the approval process to successfully conclude and for the deal to close, at which point we anticipate the share price increasing from $31.23 as at year end to the $36 offer price.

At FirstGroup, a position we've held since early 2019, to unlock shareholder value they announced that their North American assets would undergo a strategic review. We're pleased with this development since our research uncovered that First Student and First Transit, their primary North American businesses, are undoubtedly the company's most valuable assets. Accordingly, our investment thesis was formed around isolating the value of these two divisions, which this strategic review will effectively do.

Coincidentally, what played a role in prompting our interest in FirstGroup was Apollo Global Management's – an American private equity firm – failed attempt to purchase the company. Between this news and upon further review, we surmised that Apollo was likely attracted to First Student and this recession resistant divisions ability to improve margins and drive profitable growth. As a result, we anticipate widespread interest in these assets once a formal process is underway.

We've long touted that a key competency of our firm is our ability to adapt to market environments. We displayed our willingness to use this versatility in the fourth quarter when we executed on a meaningful option overlay strategy – a strategic approach that will appeal to us from time to time, depending on the circumstances and cost of execution.

Prior to making this investment, we noted that despite rising risks; an increasingly cautious federal reserve, elevated China-U.S. trade disputes, initiation of the U.S. presidential impeachment proceedings, and evidence of a slowing economy, volatility was relatively muted. This diametrically opposed environment translated into an opportunity for us to execute a targeted option overlay strategy that effectively eliminated our downside exposure, while maintaining substantially all our upside. In effect, we purchased reasonably priced insurance just as the need for that insurance appeared to be rising.

Our Growing Family

This year, IBV Capital underwent a transformation to accommodate our ongoing growth. It began in earnest when we moved to 401 Bay Street in Toronto's downtown core. While we enjoyed our home in Yorkville, the additional space and improved accessibility to the financial district our new location has to offer has been a welcome change.

This year's enhancements included the expansion of our team. In the fourth quarter, we retained the extensive business development experience of Daniel Han and investment expertise of John Zondo. Daniel is our brand ambassador and will play an instrumental role in ensuring new and existing investment partners receive the personalized service we're committed to providing. John expands our capabilities in fixed income investing, further promoting our free movement around the capital structure.

In addition to these improvements, this year marks the five-year anniversary of our Fund – an important milestone. We're also pleased to share that Thomas Wnuk, who has been with us since our beginnings, has reached his five-year anniversary.

To top it all off, we are proud to have produced the best performance in our firm's history – earning us accolades from Barclay Hedge and Canadian Hedge Watch. While many other achievements took place behind the scenes, we can say with certainty, that we're pleased with all that's transpired over the last twelve months and look forward to reporting more future successes.

Sincerely,

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