IBV
CAPITAL

Q1 2020 Partnership Letter

Dear Partners,

In recent weeks we've enjoyed the opportunity to speak with each of you. Despite these uncertain times, it's clear we all share a common concern – the health of our colleagues, friends, and families. At IBV Capital, we're relieved to report that we are all healthy and in good spirits. We hope this continues to be the case for you too.

It's heartbreaking when we consider the impact COVID-19 is having on our mothers, fathers, sisters, brothers, daughters and sons. Before we continue, we would like you to note that the human grief being experienced should never be overshadowed by our commentary on the positive elements of this investment environment. We have a deep empathy for the very real physical, emotional, and financial pain this crisis has created. However, we must also acknowledge that we're duty bound to capitalize on these types of environments. As we will display, this period could prove to be incredibly lucrative for our investment partners.

We have been and will forever be students of economic and financial history. The knowledge we've accumulated from this endless pursuit to perfect our craft has confirmed our belief that the more things change, the more they stay the same. It is under this premise that we crafted our investment mandate, developed our investment process, designed our fund terms, and purposefully cultivated a specific firm temperament. As a result, we've been prepared to capitalize on the opportunities that any unprecedented event – including this one - would bring.

Today, the benefits of every nuanced feature of our formation are working together in harmony and therefore the effectiveness of their combined impact will be amplified. Before we share our thoughts on the investment environment, a few reminders about these qualities are warranted.

We're long term investors that think like owner operators. The impact of this philosophical approach has on our investment activities is dramatic. For instance, our investment horizon is naturally longer than the effect COVID-19 will have on the economy. Consequently, our focus is drawn towards the severity of this event's impact and whether it will influence the long-term operational and economic fundamentals of a security once we return to normalcy. With the clarity that can be created by this vantage point comes the confidence to make calculated investment decisions that are designed to grow our portfolio's intrinsic value – what we think our portfolio is worth – and drive future returns.

Our research is exceptionally detailed. As a result, we enjoy a deep understanding of each security we own, before we own them, and appreciate how this dynamic environment may impact them. In moments of crisis, it's important to have an intimate understanding of your investments. However, we appreciate that when you don't, the unknown makes watching the wildly fluctuating valuations of the individual securities you own increasingly uncomfortable.

Today, in many securities, it's evident that some market participants haven't engaged in extensive due diligence to make them informed investors. As a result, they're predisposition has been to sell investments indiscriminately in order to alleviate the psychological pain of the volatility they're experiencing. For informed buyers, this environment presents a uniquely broad array of attractive buying opportunities. In turbulent times, knowledge, not just cash, is king.

We do not define risk as volatility. Instead, we have always relied on our definition of risk, which is the probability of a permanent loss in capital. From our perspective, when we pay distressed prices for an asset, we're simultaneously reducing our definition of risk while improving the probability of earning an attractive rate of return. Despite the sensibility of this approach, it conflicts with the common but misleading expression that you must take more risk to earn a higher return.

Today, we're deploying our cash into select opportunities that we've been conducting detailed due diligence on and whose market prices are fluctuating erratically – albeit well below their intrinsic values. We understand this may add an uncomfortable level of volatility to our near-term return profile. Nevertheless, we will continue this historically successful practice and emphasize that the return benefits associated with our investment activities will make the volatility worthwhile.

The power of our permanent flexible capital is evident. In a market where an enormous premium is being placed on liquidity, we can use our permanent flexible capital to invest in opportunities others cannot entertain or proceed with. Based on recent trading activity in select investments, we're clearly providing liquidity to market participants that are in dire need – giving us the unique ability to purchase assets at steeply discounted prices. During periods of stress, we anticipated that this underappreciated intangible feature we enjoy would create very tangible benefits.

We are very opportunistic. Since we appreciate that this poor health care and economic environment is temporary – historical precedence indicates all crises are temporary – we're applying our flexibility, which we also refer to as 'go anywhere capital', to what's quickly become a broadly attractive opportunity set. This approach includes leveraging our ability to invest globally and throughout the capital structure to capture the return profile we seek while simultaneously mitigating risk. Being free of artificial constraints makes us particularly well suited to successfully navigate moments like this.

With a few qualities of our approach summarized, it's important to clarify that each feature does not work effectively in isolation. Instead, it's their combined impact that creates a powerful tool that can be deployed into our expansive investment universe. While other important elements of our firm should also be recognized, as they play an instrumental role in our success, we appreciate that our thoughts on the present investment environment are equally important to our investment partners so we will turn our attention to them now.

Consistent with other major market events, we find ourselves taking a step back to gain perspective. This pause has led us to the conclusion that this crisis will be segmented into three broad categories: physical health, financial wellbeing, and a long-term recovery. Today, these first two categories seem compartmentalized and are being addressed in a near linear fashion.

Presently, health care and government officials are working tirelessly to protect everyone's physical health. Unfortunately, achieving this important objective has been at the direct expense of everyone's financial wellbeing. Until this trade-off ceases, we envision the financial toll on individuals, companies, and governments will continue to increase.

To combat the financial impact, we've witnessed a monetary and fiscal response from developed nations in an order of magnitude the world, under peace-time conditions, has never seen. Unfortunately, at present, until clarity of the timing of a sustained positive health care outlook is restored, it's challenging to determine whether the current financial support programs being put into place will be enough.

Now, this may give you the impression that we have a highly negative outlook. We can assure you; this isn't the case. Candidly, we're very optimistic that social distancing measures to flatten the curve, a rapid adaptation of our health care system to increase its capacity, and progress on a vaccine will yield positive results. While this suggests to us that the world will make it through this trying period, we acknowledge that these achievements will take time.

Counter-intuitively, our optimism is also grounded in the recognition that the temporary self-induced coma the economy has been placed in isn't sustainable. There are practical limitations on how rigid the trade-off between the physical health and financial wellbeing of citizens can be. For instance, the negative financial impacts any business, government, or individual is experiencing as their revenues fall to zero – not the modest decrease a typical recession may produce – implies these constraints are fast approaching. This means a paradigm shift from linear thinking to non-linear (holistic) thinking is necessary and the unenviable decision to "re-open" economic activity in the absence of a clear victory over COVID-19 is inevitable and coming soon.

This will represent a transition to our recovery. Importantly, we appreciate that not everything will return to normalcy instantaneously. It's highly probable that society will be left with a deeply distressing global health care toll – even if we flatten the curve today. Financially, many companies will have been so deeply scarred that their very survival will be in question for some time. For those that survive, depending on the specific nature of their business, it may take time, a potentially long time, to recover. It's this inevitable recovery that presents the incredible investment opportunity that we're capitalizing on.

Strategic Consolidation

The market value of our IBV Capital Global Value Fund decreased by 18.1% (net of fees) in the first quarter of 2020. Importantly, the intrinsic value of our portfolio advanced 28.4% during the quarter. For comparative purposes, during the first quarter of 2020, the MSCI World Index decreased by 21.0%.[1]

There's a reason that when the game is on the line you pass the puck to Wayne Gretzky, basketball to Michael Jordan, and bat to Derek Jeter. Statistically speaking, they're going to win when winning matters most. We've effectively passed the proverbial puck, basketball, and bat to the superstars in our portfolio by investing into a few opportunities we know intimately, and we anticipate performing exceptionally well.

Prior to the outbreak of COVID-19, we had expressed concerns about general economic and valuation conditions and took steps to weatherproof our portfolio. As a result, our portfolio additions have been exhibiting certain defensive characteristics. For instance, the underlying

[1] "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 12.

business models in many of our equity investments are particularly geared towards withstanding uncertain economic times. We also trained our focus on undervalued securities – including debt - that had clear embedded catalysts that would surface their value in the near term and regardless of the economic conditions.

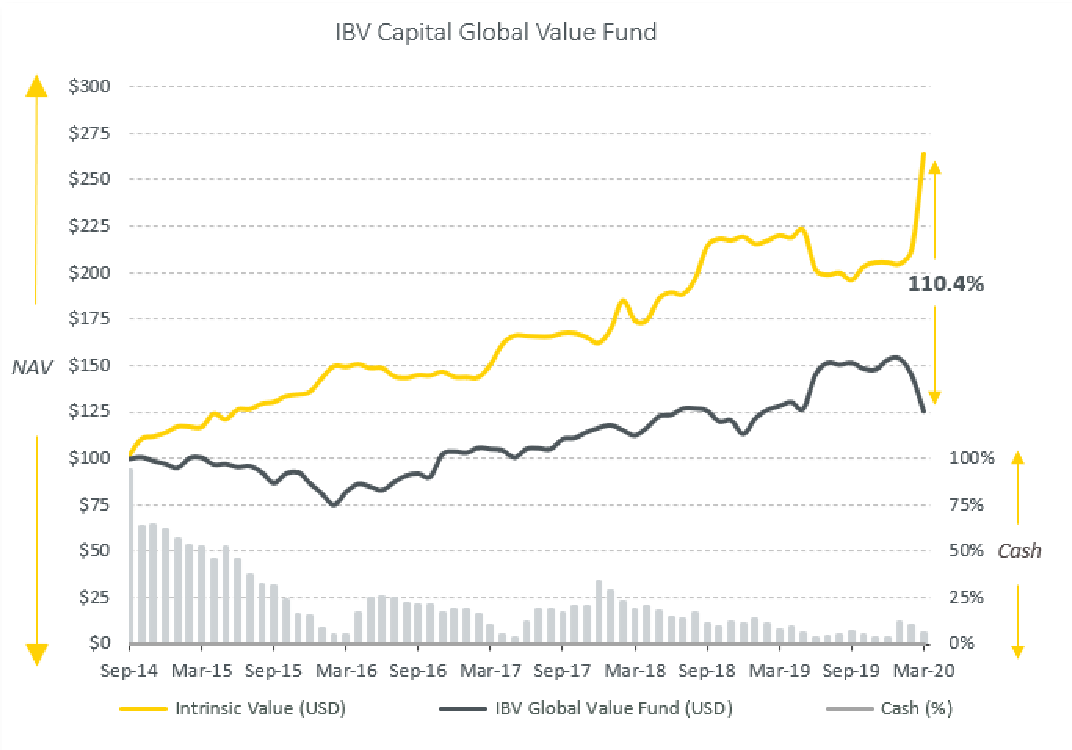
In addition to buying defensively, we also maintained our discipline of selling investments once they had reached their intrinsic values. Earlier this year, these sales included our positions in Bank of America (BAC) and Element Fleet Management common and preferred shares (EFN). Instead of reinvesting the proceeds we used them to build our cash position.

While we believe the underlying fundamentals of our portfolio investments are well insulated from an economic contraction, we appreciate that during any financial upheaval, the market prices of many securities, regardless of whether they are completely unrelated, become highly correlated. Often, seemingly sound investments decrease in value as quickly as speculative investments – and for unknown reasons, sometimes more.

It's been unfortunate, but not unsurprising, to see the way some valuations have changed in the last few weeks. These changes don't reflect the reality that many of our investments will be only modestly impacted by the challenges today's economic environment represents. Fortunately, for a few of our investments, particularly DaVita (DVA) and Ascendant Group (AGL), the transmission mechanism between underlying fundamentals and value has remained intact. Clearly, the transparency associated with their economic strengths and near-term value enhancing catalysts have attributed to their share prices not changing materially in value.

This created an opportunity to sell our investment in DaVita (DVA) during the quarter, so we did. Despite our high opinion of the company's management team and prospects, we decided to replace it with other opportunities that enjoy greater return potential. This portfolio maneuver had the effect of increasing the intrinsic value of our portfolio and we're confident it'll simultaneously reduce the probability of a permanent loss in capital – though not necessarily volatility.

Collectively, these sales and subsequent purchases have resulted in a material increase to the intrinsic value of our portfolio. When combined with the decrease in the market value of our portfolio, it's expanded the gap between the intrinsic value of our portfolio – what we think our portfolio is worth – and the market value of our portfolio to 110.4%.

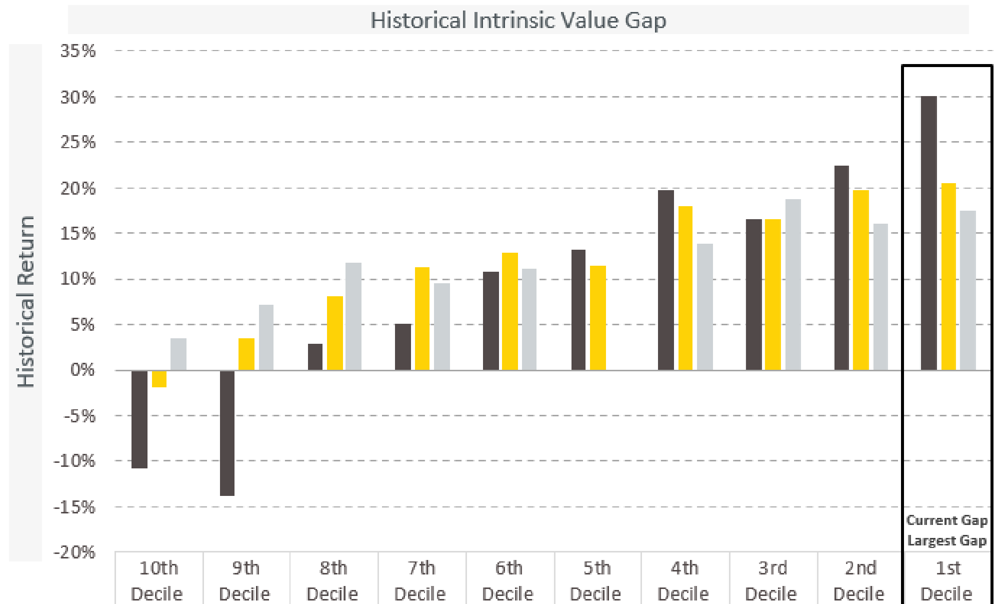


For some time, we have shared the above intrinsic value gap chart. We use it to articulate our future return prospects in real time, as opposed to providing a static long-term net return target. In our opinion, this insight is far more useful to our investment partners.

In early 2019, we shared a few statistics associated with this intrinsic value gap and we'd like to share those once again – albeit updated as at quarter end. As you are reviewing the chart above, it's helpful to remember that our investment efforts are to consistently increase the intrinsic value (yellow line) of our portfolio, with the expectation that the market value (grey line) 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 expect 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 lower.

To confirm this relationship exists, we continuously analyze our realized returns as they relate to our portfolio's historical intrinsic value gaps. The outcome of this analysis 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	-11%	-14%	3%	5%	11%	13%	20%	17%	22%	30%
2-Year Annualized Return	-2%	3%	8%	11%	13%	12%	18%	17%	20%	20%
3-Year Annualized Return	3%	7%	12%	10%	11%	N/A	14%	19%	16%	17%

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, ranging from our narrowest historical intrinsic value gaps (10th decile, on the left) to our widest historical intrinsic value gaps (1st decile, on the right). For each of these 10 deciles, we calculated the one, two, and three-year actual annualized returns that our investors have earned.[2] You will find these actual return statistics below each decile.

Our current intrinsic value gap is very wide and therefore situated on the right-hand side of the above chart in the 1st decile – and highlighted by the black box. When our intrinsic value gap is in the 1st decile, historically, our investors have earned one, two and three-year annualized returns of 30%, 20% and 17%, respectively.

It is evident from our historical 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 excited with the fund's future return outlook.

[2] 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.

Drinking Water Through a Fire Hose

In January, we completed the exit of our investment in Bank of America (BAC). We have had a long history with BAC, dating back to before IBV Capital existed. In this environment, a recount of that history is particularly timely.

In the fourth quarter of 2011, while we were still a family office, we began purchasing BAC. That year was particularly difficult because the market was adjusting to a new normal whereby many European nations had or were defaulting on their debt obligations – placing the very survival of the Eurozone into doubt. At the same time, the United States was creating its own debt crisis when Congress threatened to not increase the debt limit, invoking fear of a technical default.

It was a trying time, not unlike today, but it was in that environment that we made our first purchase of BAC at $6.27 per share. As low as this price seemed, unfortunately, the price would immediately fall to $4.99 (representing a 20.4% loss). While displaying an early dramatic loss, our annualized return earned during our holding period over the next 8 years was 32.2% and the advantage to deploying capital during periods of market stress, regardless of the volatility we'd experience, was carved into our investing temperament.

For IBV Capital and our investment partners in the fund, we waited until 2015 before another attractive entry point in BAC existed. From our perspective, the largest banks in the U.S. are much different following the Great Recession making them a far more appealing investment. For instance, today, many lines of their business enjoy barriers to entry that appear insurmountable. While we continue to be fans, particularly of a few of the better banks, for us, BAC had reached its intrinsic value. For the fund, we exited our position with a very attractive annualized return of 22.9%.

We also exited our position in Element Fleet Management (EFN) common and preferred shares (I & G class). While we continue to think highly of this business and its management team, its common and preferred share prices had also achieved our intrinsic value.

It's important to note that we moved around EFN's capital structure as their business evolved from being distressed to a high performing global leader in fleet management. Our earliest investment was in their preferred shares. At the time, we identified that the company was undercapitalized after customer defections and the fallout of an ill-advised joint venture. We anticipated they would need to enhance the credit profile of their balance sheet and determined their preferred shares would benefit from this activity. We were correct and once the dividend was cut and equity had been raised, our attention turned to the progress their CEO, Jay Forbes, had made in turning the business around. We'd move on to purchase their common shares as well and have earned a very attractive annualized return of 29.3%.

While these two sales were conducted before the market reaction to COVID-19, we sold our DaVita (DVA) position in March during peak panic in the markets. At that exact moment, with the MSCI World Index down 27.9%, DVA was essentially flat at -0.2% on the year. The circumstances associated with our DVA sale are more nuanced and worth sharing.

Historically, we have consistently displayed our discipline of selling an investment once it reached its intrinsic value. Since we often enjoy an elevated cash position, when other opportunities arise, we can maintain all our investment positions and simply add the new one. Under normal conditions, this effectively ensures each new position is only additive to our objective of constantly building our portfolio's intrinsic value – what we think the portfolio is worth.

Under the extreme circumstances in March, we were deploying much of our cash into attractive opportunities and soon found ourselves faced with a dilemma. Hold DVA, which was trading at a discount to its expected intrinsic value. Or, sell DVA and replace it with other investments that enjoy a deeper discount to their expected intrinsic value and therefore more attractive risk and return prospects. Since our objective is to maximize our portfolio's intrinsic value, we made the calculated decision to sell DVA and reinvest the proceeds. Despite our premature exit, DVA made us a 17.1% annualized return during our holding period.

We also exited Trinity Industries (TRN). Our investment in this company pre-dates its existing form. Initially, in 2014, we identified TRN as having a very strong rail manufacturing and leasing business. However, this solid business was attached to a diverse set of small sporadically performing industrial businesses. Our thesis was that the company should be separated – isolating the strength of the rail car division and effectively turning it into a fleet management company focused on railcars. This occurred and we immediately sold our position in the less desirable industrial conglomerate, Arcosa.

While we remain optimistic that TRN's railcar business will do exceptionally well, the time it will take to reach its optimal configuration has been impacted by the current economic climate. This expectation has reduced its intrinsic value and therefore our portfolio's future return expectation. Instead of maintaining the investment we decided to exit and use the capital proceeds to invest in other opportunities exhibiting a greater discount to their intrinsic value and enjoying nearer-term catalysts to surface that value. When we combine this exit with the exit of Arcosa, we earned a modest gain on the total position.

As you may recall, FirstGroup PLC (FGP) is the largest provider of yellow school buses in North America. Combined with its Transit Bus division, it produces 68% of annual earnings before income, tax, depreciation, and amortization (EBITDA) in North America, despite it being listed in the United Kingdom.

We made our investment in FirstGroup PLC because it was dramatically undervalued, there were clear catalysts to surfacing that value, and if economic circumstances deteriorated in its core markets – the United Kingdom and United States – its business fundamentals would be modestly impacted, if at all. Admittedly, a global pandemic that would force workers to stay home and children to stop attending school was not an investment thesis risk we spent time carefully considering.

However, despite the very real black swan scenario we're currently faced with, FGP has proved how resilient this company is to *any* adverse circumstances. After speaking with the company and reading details about the United States' fiscal stimulus package, it's become evident that despite children not being in school, FGP's school bus division will likely be paid some or all of its contractual fees from local school boards. We also understand that cities will continue to compensate FGP's Transit Bus divisions as well. Why? Because if bus drivers, in either division, are furloughed or laid-off, re-hiring these workers will be too complicated and take too long, which will impair efforts to return people to work and children to school. Without these services quickly functioning at full capacity, reviving the economy will be extremely challenging.

Similarly, in the United Kingdom, the federal government has almost eliminated the entirety of FGP's anticipated losses from falling ridership in their rail division by temporarily nationalizing the contract and paying FGP a fee to operate the rail system. Combined with the North American activities, these actions have nearly eliminated the economic downside for the whole company in this current environment.

Additionally, the upside we identified and catalyst to realize it remains firmly intact. On March 11th, management announced they had hired Rothschild & Co, together with Goldman Sachs and JP Morgan to conduct a sale of their North American business. We are cautiously optimistic this sale process will be concluded this year and will provide the market with greater visibility into the full value of this company.

Home Sweet Home

We've moved again! We now have satellite offices at six new locations around the Greater Toronto Area. At these new locations, our employees enjoy reduced commuting times and, depending on the circumstances, lunches prepared by local chefs.

To accommodate the wellbeing of our employees and make our contribution to flattening the curve, the team transitioned to home offices in early March. Since we already had remote working capabilities, the new operating configuration had little impact on our executional excellence. In fact, our business continuity capabilities rose to the challenge and exceeded very lofty expectations.

With functional capabilities intact, we've transitioned to ensuring we maintain our collaborative close-knit team culture. In addition to our morning and evening group video conference calls, we enjoy team video lunches and have even hosted our first virtual company social. Being creative and collaborative is when we're at our best, so we're going to extraordinary lengths to keep the firm's greatest assets – our people – and your wealth safe and working hard.

Sincerely,

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

Disclosures:

This material was prepared exclusively for information and discussion purposes. This material is not meant to be, nor shall it be construed as, an attempt to define all terms and conditions of any transaction or to contain all information that is, or may be, material to an investor. IBV Capital Ltd. is not soliciting any investment based upon this material, and this material is not meant to, nor shall it be construed as, an offer or solicitation of an offer for the purchase or sale of any security or advisory service. If in the future any security or service is offered or sold, such offer or sale shall occur only pursuant to, and a decision to invest therein should be made solely on the basis of, a definitive disclosure document, and shall be made exclusively to qualified investors in a private offering. Any such disclosure document shall contain material information not contained herein, and shall supplement, amend and/or supersede in its entirety the information referred herein. "Intrinsic value" represents IBV Capital's internally calculated value of an investment. Intrinsic value is calculated based on, among other factors, quantitative and qualitative business analysis, industry research, and assumptions that we believe are fair and reasonable under the circumstances. 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. Certain assumptions, data and projections have been made in the analyses that resulted in return scenarios and forward-looking statements included herein. No representation is made that all such assumptions, data, or projections have been considered or stated or that any of them will materialize. Changes to the assumptions, data, or projections may have a material impact on the returns shown by way of example. Forward looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the times as, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time the statements are made and/or good faith belief as of that time with respect to future events and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in, or suggested by, the forward-looking statements. The Fund's actual results or activities or actual events or conditions could differ materially from those estimated or forecasted in forward-looking statements due to a variety of factors, some of which may be beyond the control of the Fund.