VALUE CONTRARIAN
ASSET MANAGEMENT

2023
Full Disclosure

Over the coming years we want to advise investors that the Value Contrarian Fund may be more volatile than has been the case in the past. Here is our reasoning:

1) When your Fund is fully invested, we are subject to the full volatility of the financial markets. As we don't short stocks, cash is often the simplest, risk-free instrument to blunt stock market volatility.

2) Berkshire Hathaway, Warren Buffett's investment vehicle, represents approximately 25% of your fund's assets. We view this as a strong investment in all market conditions. Nonetheless, there will be years (like 2019 & 2020) where Berkshire underperforms the market and will impede your Fund's returns.

3) In general, a rising Canadian dollar and a weakening US dollar will also affect your Funds results, due to our significant U.S. holdings. Presently, the Canadian dollar is approximately 74¢. However, if over the coming years it rose to 85¢ or 89¢, this would add a stiff headwind to your fund's net results.

Predicting currency moves is about as easy as predicting the weather this time next year. Good Luck!

Benjamin Horwood
September 22, 2023

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2023 Second Quarter
Value Contrarian Equity Fund

Dear Partners,

> **Today, the chickens are slowly coming home to roost from the era of ultra-low rates. Central bankers have been tightening the screws in a "python" like squeeze. Silicon Valley Bank was one of the first public victims of this rate rise squeeze. Who will be the next "road-kill" victims?**
>
> **Benjamin Horwood**
> **Value Contrarian Equity Fund**
> **September 2023**

> **Investors have become so accustomed to low long-term rates for many years that 4.3% seems like a high long-term rate for many fixed income investors. We do not believe that current levels of long-term treasury notes are high considered in a longer term historical context (or) when one does the math on what long-term notes must be for investors to earn an adequate long-term, risk-free return in excess of inflation.**
>
> **Bill Ackman**
> **Investment Manager's Report**
> **Pershing Square Holdings**
> **August 17, 2023**

> **Those who are hoping to be rescued by a return to low interest rates may find themselves waiting in vain.**
>
> **John Rapley**
> **Economist – University of Cambridge**
> **Globe & Mail**
> **September 2023**

Since the Great Recession of 2009, consumers, businesses, & governments became addicted to "free money" (unsustainable ultra-low interest rates).

Last year, when the Fed began aggressively lifting interest rates to tame inflation, tech stocks were dumped. By the end of 2022, the S&P 500's tech sector had slumped 29% and the Nasdaq index was down 32.6%.

Fast forward to 2023, the tech sector has led the markets higher on the excitement of advances in artificial intelligence and bets that the Fed would start cutting rates sooner, rather than later. The tech sector also fell the most in 2022, so the "snap-back" effect in 2023 should not have been a total surprise.

Higher interest rates in 2023 (1 year GICs 5%) are clearly starting to bite. Gross domestic product (GDP) contracted 0.2 percent in the second quarter (Stats Canada recently reported). Unless growth or inflation accelerates, the consensus opinion seems to be "the Bank of Canada is done hiking".

Numerous small signs are pointing to tougher times ahead. Here is one small anecdote.

It was recently announced on the local news that for the first time in 10 years, the Quebec SAQ liquor commission suffered a drop in both its sales and profits. Consumer belt tightening, and the end of the covid "at home" effect are all growing headwinds, even for the provincial liquor monopoly.

Investors continue to be obsessed with the "when & if" the next "soft landing" recession will commence. For the time being, we feel the 2022 bear market has mostly discounted the effects of a shallow, short-term recession. "Soft landings" are made in Disneyland, and then unsuccessfully co-opted by Wall Street (in our opinion).

The real question most investors should be asking today is, when & where will the next shoe drop as a result of the 2009-2021 addiction to ultra low interest rates. What company, sector, or financial market will be the next victim?

From our experience, a decade of excesses is not expunged in one or two years.

Second Quarter Performance

Survival of the fittest describes the environment (for stocks in 2023) as investors gravitate to the fewer and fewer companies that can continue to grow their earnings. (Think the Magnificent 7 – names in the S&P).

Richard Bernstein
Former Strategist at Merrill Lynch
Financial Times London
September 2023

We believe that emerging structural forces including higher defence spending, energy scarcity and the transition to green energy, deglobalization, and the increased bargaining power of labor will likely contribute to sustained longer-term inflationary pressures.

Bill Ackman
Investment Manager's Report
Pershing Square Holdings
August 17, 2023

AI will undoubtedly change the economy as new technologies always do. However, investors have to dispassionately separate hype from an investment opportunity.

Richard Bernstein
Bernstein Advisors
Financial Times London
September 2023

Your Fund ended the second quarter with net asset value of $4,088.43 per unit, an increase of $55.79 from the December 31, 2022 net asset value of $4,032.64 per unit [after distributions]. Year-to-date, June 30th, your fund returned: 1.38%.

While technology stocks were a bust in 2022, they have powered the 2023 market rally. What has been top of mind for stock market investors is the narrow leadership found in the S&P 500 gains, and the fact that a handful of stocks are carrying the rest of the market on their backs. At least in the "go-go market" of the 1960s and early 1970s, there was the "Nifty 50", not just the "Magnificent 7", as is the case today. Let's take a look under the hood of this year's "tech" rally.

Into August, the "**Magnificent 7**" (Tesla, Meta, Google, Amazon, Nvidia, Apple, and Microsoft) have been the superstar market performers of 2023.
When an investor looks under the hood of the S&P 500 Index, the market advance year-to-date (Aug 2023) has been very narrow, as opposed to broad based.

YTD as of	**S&P 500 Equal-Weight (RSP)**	**S&P 500 Market Cap (SPY)**
May 31 2023	-(1.16%)	+9.26%
June 30 2023	+5.94%	+15.91%
July 31 2023	+9.65%	+19.71%
August 31 2023	+6.14%	+17.76%

This situation can best be illustrated by the above chart, which demonstrates the differing returns between the S&P 500 equal weight vs the S&P 500 market cap weighted.
In the market cap index (the most widely followed), it is the "Magnificent Seven" stocks (out of 500), which represent approximately 26-29% of the index value.

However, when each of the 500 names in the index are weighted equally, a much different performance story unfolds. (See above chart).
Thus, to the end of August, the equal weighted index has a YTD return of 6.14%.
However, when the S&P index is market cap weighted, the return is 17.7% - almost triple the gain.

The reason for this latter index's gigantic outperformance, results from the situation whereby the Magnificent 7 constitute a whopping 71 percent of the rise in the S&P 500 (market-cap weighted index) in 2023. (This analysis was conducted by Richard Bernstein – the former Chief Investment Strategist at Merrill Lynch).

Our “anemic” year to date performance has resulted from the confluence of “sins of omission” (no Magnificent 7 holdings), a large cash position, and holdings in underperforming sectors such as cable/telecom/Canadian banking.

Negative performers included: TD –(7.45%), Saputo –(11.5%), Rogers –(4.6%), Telus –(1.3%), Paypal –(6.3%), Verizon –(5.6%). On the positive side were Berkshire Hathaway +10.4% and CGI +19.7%.

During the second quarter we added one new opening position, Paramount Global (formerly Viacom CBS). The global media and entertainment company portfolio includes Paramount+, CBS, Showtime Networks, Paramount Pictures, MTV, Pluto TV, among others. Some assets are very valuable, some are being disrupted, while others, like streaming, are a work in progress.

We bought our opening position in May after the company produced poor earnings & sales results and cut its dividend by 75%. The writers strike (now settled) has certainly had a negative impact on the sector.

The various parts of the entertainment conglomerate (controlled by Shari Redstone) are in theory worth far more than its present $8.5 billion market capitalization suggests. A sum of the parts calculation, after subtracting long-term debt, produces a valuation of $15-$20 billion for Paramount.

In today’s difficult media environment, extracting the full value for these assets would not be easy. Yet, one never knows when lightning will strike. The industry has plowed billions into developing competing online streaming services but struggles to make a return on its investment. Most experts agree that additional consolidation looms for the media industry.

Of note, Berkshire Hathaway is the largest institutional investor in Paramount, retaining a stake of approximately 15.4%. We know that Shari Redstone, the controlling shareholder of National Amusements is a willing seller at a fair price. National Amusements controls Paramount through its Class A shares.

Paramount has long been viewed as a potential acquisition target due to its small size relative to its competitors (Comcast, Disney, Warner, Amazon, Netflix). Once the streaming business turns cash flow positive, Paramount will gain more financial leeway and negotiating leverage. The company expects this to occur in 2024/2025.

OUTLOOK

Who will be the investment "winners" in the years ahead? The long suffering savers and fixed income investors who are now be able to gorge on enticing bond yields.

Benjamin Horwood
Value Contrarian Equity Fund
September 2023

Planes (make soft landings). Economies don't.

Steven Blitz
Chief Economist
TS Lombard
September 18, 2023

At VCAM, the stock market is our current "makeshift" guide to the future direction of interest rates. As long as the markets "muddle" along, with no major steep (bear) declines, we believe interest rates will stay "higher for longer".

Ben Horwood
Value Contrarian Equity Fund
September 2023

If there was a time the "Fed Put" was born, it was during the LTCM (hedge fund) crisis (of 1998). The basic idea: By cutting rates in response to a drop in the stock market, the Fed had in effect provided investors with something similar to a put option, an instrument used by traders to insure against losses.

Justin Lahart
Wall Street Journal
September 25, 2023

Investors should understand that the era of ultra low interest rates has likely been relegated to the history books. Americans who recently locked-in ultra low mortgage rates, (3% in the 2020-2022 period), have less incentive to buy a new home, or take a new mortgage at 7%.

Borrowers and the financial markets are hoping for a Fed rate cut relief – especially home buyers. Unfortunately, hope is not a reliable investment strategy.

In our opinion, it will likely entail a severe & sustained drop in the stock markets, in order to provide Fed chairman Powell with the "cover" he needs to initiate a significant drop in interest rates. Specifically, we believe, the Fed will need the cover of a severe economic or geopolitical crisis for rates to drop significantly.

Simply stated, why should the Fed waste its "bullets" (lowering rates) if inflation remains above 3%, or the markets climb higher, remain range bound, or undergo a mild 5-15% correction? Better to keep ample ammunition in reserve. Sustained rate cuts are the "heavy artillery" the Fed would likely employ in an "Oh My God" global market crisis!

Such rate cuts have become known as the "Fed Put". This is when the Fed cuts interest rates aggressively in a bid to shore up the stock market. (Examples: 1998 LTCM blowup, 2000 dotcom bubble, 2008 housing/credit crisis, 2020 covid pandemic.)

For your manager, the health of the stock markets will be an important rate cut "signal". Other important factors will include the yield on 10-20 year bonds, oil prices, and unemployment rates.

It's always possible, over the next year or two, should the economy weaken enough, for the Fed to become proactive and initiate some "cosmetic, baby-step" rate cuts. But, at the end of the day, your guess is as good as ours concerning exactly when significant rate cuts will commence.

We still believe, over the next 18-24 months, (despite the inevitable 5%-15% corrections) the major stock indexes will reach new record highs. The mega-cap, "winner take all" companies could very well continue to lead the way forward this late in the cycle.

Respectfully yours,

Benjamin D. Horwood
Portfolio Manager
September 22, 2023

Value Contrarian Equity Fund

Next Fund purchase

Date: October 15th, 2023

Call today: 514–398-0808

P.S. Do visit us at our web site: **www.valuecontrarian.com**

**We're often asked: "When is the best time to invest in the Value Contrarian Fund?" Although there is no best time, since it is impossible to time the market, a preferable entry point is when the Fund has produced a month of negative returns or a year of underperformance. Unfortunately, human nature prefers the exact opposite.

Overall, long-term shareholders in the V/C Fund benefit from a sinking stock market, the same as a regular grocery shopper benefits from declining food prices. So when stock markets plummet – as they will from time to time – "neither panic nor mourn". It's good buying news for your Fund.

This letter is not to be construed as an offer, solicitation or recommendation to buy or sell any of the securities herein named. At the time of reading the investments mentioned may no longer be held by the V/C Fund. This information is intended only for existing investors in the Fund, as of the date indicated, is not complete and is subject to change. Performance information is net of applicable fees unless otherwise specifically noted. Past performance is no guarantee of future results. The information contained herein is unaudited. It has been supplied by Value Contrarian Asset Management (VCAM), the Fund's Investment Manager and not the Fund's Administrator who is responsible for the final calculation for the actual performance and final month-end Net Asset Values. Every effort has been made to ensure that the material contained herein is accurate as of publication. VCAM makes no representations or warranties as to the accuracy or completeness of such information and accepts no responsibility for any loss arising from any use of or reliance on the information contained herein. VCAM has no obligation to update the information at any point in the future.