

2021 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 20% of your fund's assets. We view this as a strong anchor investment no matter the market conditions. Nonetheless, there will be years (like 2019+2020) where Berkshire underperforms the market and will impede your Fund's returns (2020 Fund Returns: +17.1%).
- 3) A rising Canadian dollar and a weakening US dollar will also affect your Funds results, due to our significant U.S. holdings. The Canadian dollar is presently at .79¢. 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

2020 Year End
Value Contrarian Equity Fund

Dear Partners,

Examined on their own, stock valuations are at giddy levels, yet they are far more attractive when viewed side by side with bonds. That's why it is so hard to determine whether the stock market is dangerously high or a relative bargain.

Robert J. Shiller
Yale Professor
March 2021

The biggest problem [for investors] with these unprecedented and sustained government and central bank interventions is that risks to capital become masked even as they mount... With so much stimulus being deployed... As with frogs in water that is slowly being heated to a boil, investors are being conditioned not to recognize the danger.

Seth Klarman
Hedge Fund Manager
Baupost Group
January 2021

What a crazy ride 2020 produced! When a downturn is caused by a pandemic, it adds another layer of complexity to the confusion. From the sheer panic which engulfed investors in the February/March selloff, to the “irrational exuberance” at year end and into the New Year.

Simply stated, investors are now behaving as if risks have “simply vanished” due to rock bottom interest rates, and wave after wave of government stimulus programs to combat the fallout from the pandemic.

The savvy long-term value investor Seth Klarman put it succinctly in January 2021 when he stated, “but as with frogs in water that is slowly being heated to a boil, investors are being conditioned today not to recognize the danger(s).”

After an approximately 35% plunge in stock prices from mid-February to the March 23 bottom, the “Don’t Fight the Fed” mantra kicked in and created a solid floor on stock prices. Yes, equities began to recover, and then soared on the back of near zero interest rates and a plethora of central government stimulus programs.

While it is true that the cause/catalyst of each recession is different, the discipline which investors adopt to manage their portfolios should remain intact. Selling based on scary headline news would have led to liquidating at the bottom in March and missing the unpredictable quick rebound in April and beyond. The smart money understands that things won’t stay bad – or good – forever.

What matters in the long run is, “time in the market, rather than timing the market.”

2020 Performance - +17.1%

Every Age has its peculiar folly; some scheme, project, or fantasy into which it plunges, spurred on either by the love of gain, the necessity of excitement, or the mere force of imitation

Charles Mackay - Journalist
Memoirs of Extraordinary Popular
Delusions & the Madness of Crowds
1841 – London

[Good investing], partly it's temperament, partly it's deferred gratification, you gotta be willing to wait. Good investing requires a weird combination of patience and aggression and not many people have it. It also requires a bit amount of self-awareness about how much you know and what you don't know. You have to know the edge of your own competency...

Charlie Munger
Vice Chairman – Berkshire Hathaway
December 2020 - Caltech

December 31, 2019 – \$ 3,229 (NAVPS after distributions)

December 31, 2020 – \$ 3,781 (NAVPS before distributions)

December 31, 2020 – \$ 27.39 (Year-End Distribution per unit)

December 31, 2020 – \$ 3,753 (NAVPS after distributions)

Your Fund ended the year with a net asset value of \$ 3,753 per unit.

For calendar year 2020, the TSX Composite Total Return Index rose +5.6%, the S&P 500 +18.4%, and the NASDAQ +48.6%.

While your Fund ended the year with a positive +17.1% return, it was definitely a year of extreme volatility. At the bottom in March, the VC Fund was down -(9.4%). We also experienced 4/12 months with negative returns.

Timing and some good luck are always helpful in life. In March, I advised all our partners that I would be committing \$500,000 to purchase additional units in the Fund at months end. Two astute retired women investors also followed my lead. Their quiet confidence in the long-term Value Contrarian strategy has served them well. Mazal Tov!

If one was an investor at the March bottom, until year end 2020 – your returns were a gratifying +29.2%.

Buying stocks in March 2020 required an investor to embrace fear and uncertainty in exchange for higher expected returns. If one can stomach being a buyer in times of extreme fear and uncertainty, your chances of earning above average stock market returns vastly improves. Buying when the market is down 25 or 50 percent, has historically been a solid entry point.

Some important investment lessons/observations coming out of the Pandemic include:

1) “Don’t fight the Fed”. In the short term, markets typically win and stocks fall, until the Fed aggressively steps in. In essence, the Fed/U.S. Treasury eventually wins with its policy support “bazookas”.

2) Don’t confuse the “economy” with the stock markets The stock Index’s don’t fully represent the reality of the economy. The broad Index’s can fly, while many parts of the private economy (small mom & pop businesses) are in the dumpster. The S&P 500 represents many large cap tech (FAANG) stocks. These large tech companies have not only survived, but thrived during the pandemic.

At one point, these 5 FAANG stocks represented 25% of the Index. Nonetheless, the S&P 500 Index had literally hundreds of companies negatively affected by the pandemic. These companies were overshadowed by the few mega cap tech stocks, which skewed the Index’s returns. Thus, 500 stocks of the S&P500 often do not represent the true pulse of the economy or the index itself.

3) Stock markets don’t fall just because they are expensive or overvalued. It takes a strong catalyst and a change in investor sentiment.

4) Roaring bull markets, like we are experiencing today, create lots of retail “momentum” investors riding the wave. The Robinhood app is a manifestation of this phenomenon. The problem is how can “momentum” investors admit that they don’t know what they are doing when they have made so much money.

All this “easy” money just drags in more newbies, higher valuations, and a self-fulfilling prophecy (think: Gamestock, Tesla, Peleton Doordash). As long as markets and the momentum is up, that becomes a profitable but naïve strategy. Only years of experience in the trenches makes one understand that markets don’t always go up, and nobody rings a bell at the top.

5) Other than ultra safe government of Canada bonds, 2008 & 2020 demonstrated that many types of fixed-income investments (even investment grade) can freeze up, and suffer significant drops in value. If you need guaranteed liquidity and no credit risk during a market panic, basically the only fixed-income vehicle to give investors this complete, “sleep at night” security, are government of Canada bonds. Don’t leave home without them. During panics, it’s not a question of “return on capital” but rather your “return of capital.”

Our success in 2020 can be attributed to these three key factors:

- 1) We went into 2020 with an approximately 30% cash position. Fire power equals buying power.
- 2) We were able to deploy the bulk of this cash at an opportunistic moment. Acquiring companies crushed during the March/April selloff lows, has been a highly lucrative endeavour.
- 3) The pandemic selloff enabled us to buy “great businesses” at temporarily (not permanently) depressed price levels.

Success in investing requires patience, discipline and waiting for the right pitch. March/April served up that great pitch!

Consequently, your manager was able to load up on “quality businesses” in the travel, real estate, payment processing and industrial sectors. New names added included: A&W, General Dynamics, Walt Disney, Booking.com (formerly Priceline) Hilton Grand Vacations, Wyndham, Aeroporto del Pacifico (Puerta Vallarta, Cabos, Tijuana, Guadalajara, Manzanillo & Montego Bay Jamaica) and Pershing Square Holdings. We also added to some of our favorite “golden oldie” names, such as PayPal, CGI, & SNC. Simply stated, the Pandemic offered your Fund manager an orgy of buying opportunities.

One home run investment for your Fund was Bill Ackmans Pershing Square Holdings. By December 31, 2020, the stock was up 70.2% (after all fees) for the year.

Bill Ackman is a well-known hedge fund manager with a checkered past. He was a star manager that came crashing down to earth by 2015. After a spectacular run from 2004-2014, he then suffered 4 consecutive negative performance years (2015-2018). Valeant and Herbalife were two of his highly publicised losing picks.

We started to follow Ackman in 2014 when he raised a couple of billion dollars in a closed-end fund called Pershing Square Holdings. The fund went public in October 2014 at \$25.00. Pershing's fees are not cheap, with an annual management fee of 1.5%, and a 16% performance fee. In our opinion, as a result of the fees, the fund trades at a large discount to its net asset value. The key is to buy when the fund trades at a 30% plus discount.

In March of 2020 at the Pandemic lows, your manager was buying Pershing shares at a whopping 35% discount to its net asset value. Think of buying dollar bills for 65¢! To further juice returns, the Fund is leveraged approximately 18%. (\$11.8 billion of assets. \$2.1 billion of debt).

The Fund is basically a concentrated basket (10-15 positions) of quality publicly listed companies. Think: Starbucks, Hilton Worldwide, Lowe's, Agilent, Chipotle.

In February 2020, Ackerman made one of the greatest all-time and most profitable trades in the history of the investing world. When he cashed in on the trade in late March, the Fund had made over \$2.5 billion dollars on an initial investment of \$27 million dollars. Through credit default swaps, he bet that various bond indexes (credit instruments) would plunge in price. They fell big time, as investors ran from all types of bonds, fearing the economic impact of a global pandemic.

Simply stated, (aside from the generous hedge fund fee structure) Ackman has been trying to reduce the Fund's persistent discount to its true value. The fund pays an annual .40¢ dividend and aggressively buys back its shares. In 2020 Pershing retired 6.6% of its public shares (\$286 million dollars spent). A 20%+ discount will likely persist until the day Mr. Ackman decides to eliminate the Fund's performance fee structure.

In addition, Ackman (and insiders) have an approximately 25% holding in Pershing Square stock. We think Ackman has learned from his 4 consecutive years of negative returns. Ackman clearly wants to stay in the winner's box for a long time to come.

OUTLOOK 2021

Today's [tech] leaders are often compared to the Nifty Fifty [1960's growth stocks], but they're much better companies: larger, faster growing... capable of higher gross margins... This argues for a bigger valuation gap and is perhaps the most provocative element in the pro-tech argument.

Howard Marks
Oaktree Capital Management
October 2020

The day will come when playing the game of pin the tail on the donkey isn't going to work anymore and when companies that don't make money will no longer outperform those with solid business fundamentals and a credible plan to build future residual cash flow streams. Fundamentals can only stay out of vogue for so long, as history teaches us time and again.

David Rosenberg
Rosenberg Research
February 8th, 2021 - FP

SPAC mania, IPO mania, electric vehicle mania, robin hood trading mania and FOMO mania, are all signs of a speculative mania. Meanwhile, record low interest rates have pushed investors to search for income in the riskiest parts of the markets.

According to the financial Times of London, so far in January, global high yield bond issuance has hit a historic high of \$49.9 billion. This torrent of government and central bank pandemic rescue stimulus has had a pronounced side affect – the inflating of global asset values and the spawning of an investment bubble in certain sectors (ie; think electric vehicles).

Central bankers fear premature tightening could “stunt” fragile recoveries. Yes, the collateral damage of all this monetary stimulus will likely be more asset bubbles in 2021 and beyond. The greater the asset bubble, the bigger the eventual fall.

Now for the good news emanating from Canada. In 2021, the stars are aligning for this to be an excellent year for the Toronto-TSX Index.

Specifically, the commodity cycle is finally working in Canada's favour. In January, the country's trade surplus hit \$1.4 billion, the largest since July 2014. Exports to the U.S. are booming. We are participating in the fundamental strength of the U.S. economy.

You name it, and rising prices for commodities, such as lumber, iron ore, oil & gas, copper etc... are all benefiting the Canadian economy. Throw in better than expected results from the all important Canadian big six banks, and the momentum at this point in the cycle is clearly in Canada's favour! Moderately rising interest rates may also be beneficial

We still expect the TSX Index to outperform in 2021 (our guess +10%-15%). In fact, we would not be surprised to see the Toronto Index trounce the NASDAQ Index.

In 2021, "momentum investors" will slowly start to realize the appeal of Canadian equities. Enjoy the ride, even if interest rates do creep up and lead to an occasional correction.

Respectfully yours,

Benjamin D. Horwood
Portfolio Manager
March 12, 2021

Year - End Management Note

It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently.

**Warren Buffett
Berkshire Hathaway**

As we have always stated, we cannot promise any particular results, only that investments for your Fund will be selected based on value not popularity. We view our Fund shareholders as our partners, and we assure you that the protection and growth of your capital will continue to be paramount in our thinking.

We aim not to be the biggest but to ensure consistent performance, even if that means limiting the Fund's size or closing it to new investors in the future. We want to enjoy coming to work every day and view the Value Contrarian Fund more as a private partnership, where "membership has its privileges".

Secular or disruptive technological changes to an industry or company is what truly destroys shareholder wealth and keeps us up at night (think Nortel, Abitibi, Kodak or Blockbuster). Conversely, stock-market volatility or the fear and panic of a bear market are merely temporary but opportunistic events for the rational buyer. At the end of the day, "price paid" is what matters most when investing for the long-term. Price is what you pay, value is what you get.

Being the second largest shareholder and the Manager of your Fund is certainly no guarantee of superior long-term results. But I do think ones comfort level is enhanced by having my financial interests aligned with yours. **Simply stated, your returns are my returns.**

Finally, an appreciative thanks to all the Value Contrarian staff in 2020 – the year of the wild ride. Special thanks to Chiraz for making the VCFund move to National Bank as smooth and seamless as possible. Such a move is about as effortless as going to the dentist office and finding out they have run out of freezing medication during your root canal procedure. Good Luck!

We would like to thank our shareholders for the trust you have placed in us during the past year. And again, **thanks for your referrals** – much appreciated.

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.
