VALUE CONTRARIAN
ASSET MANAGEMENT

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, or near 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 a significant chunk of your fund's assets. We view this as a strong anchor investment. Nonetheless, market volatility also means your Fund and Berkshire could be down 50% in a severe bear market.

3) Due to our significant U.S. holdings, a rising Canadian dollar and a weakening US dollar will also affect your Fund results. The Canadian dollar closed 2020 at 0.785¢ (presently at .81¢). However, if over the coming years the Cdn$ rose to .85¢ - .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

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2021 Second Quarter
Value Contrarian Equity Fund

Dear Partners,

"This boom has some legitimate explanations, from the advances in digital commerce to fiscally greased growth…
But there is one driver above all: <u>the Federal Reserve</u>. <u>Easy monetary policy has regularly fueled financial booms</u>. The Fed has kept interest rates near zero"

Greg Ip
Wall St Journal
May 8th, 2021

"History (i.e.: Tulips, Cryptocurrencies, collateralized debt obligations, credit default swaps) shows that <u>investment crazes</u> are often associated with <u>financial innovation</u>, new instruments created by wall Street middlemen, surrounded by mystery and fueled by expectation of big future profits."

Jon Hilsenrath
Wall St Journal
May 8th, 2021

"The dumbest reason in the world to buy a stock is because it's going up. For some reason, people take their cues from price action <u>rather than from values</u>"

Warren Buffet
Berkshire Hathaway
N.Y. Times April 1990

During the second quarter, the market and the economy continued to reap the benefits of ultra-low, long-term interest rates, in combination with the T.I.N.A. effect. (There Is No Alternative to Stocks) Simply stated, as long as the federal reserve maintains a loose money policy, a bear market is not likely on the short term horizon.

Yes, valuations are certainly not cheap today, and there are many signs of speculative (bubble) excesses. Think: SPAC's, Cryptocurrency Retail Robinhood trading etc…

Nonetheless, high valuations alone, are not by themselves, the catalyst precipitating market declines. Investors must always remember that 5-10-20 percent market corrections are part of the long term process of investing.

Second Quarter Performance

> **"Valuations are stretched… At the end of June, the stock market was valued at 205 percent of the country's economic output, a high. Just before the market plunged in 2000, the figure was 148 percent."**
>
> **Kristina Hooper**
> **Invesco Global Strategist**
> **July 11th, 2021**

Your Fund ended the second quarter with a net asset value of $4,260.02 per unit, an increase of $506.41 from the December 31st, 2020, net asset value of $3,753.61 per unit (after distributions). **Your Fund returns: + 13.5% year to date.**

During the second quarter, the prospect of rising inflation and copious amounts of spending from both Ottawa and Washington did not mute demand for bonds (yields fell) or stocks (The major index's reached record highs).

This quarter we took advantage of stronger (energy) commodity prices to exit our position in Canadian Natural Resources (CNQ). What a difference 18 months makes. Our CNQ purchases were made during the initial phase of the Covid pandemic, when for a short period, oil prices went negative! CNQ was a classic textbook case of "contrarian" investing. Buying a quality company, with quality oil sand reserves at the bottom of the cycle. We more than doubled our money with this unloved commodity stock.

During this period we exited our position in Lightspeed, a “Hot” Canadian tech company. In the process, making almost 5x on our initial investment. In our opinion, valuations in parts of the “tech sector” are not tethered to any rational financial behaviour. Lightspeed produces Point Of Sale software for the hospitality trade. Yes, the company is growing like wildfire. However, much of its recent growth has come from spending over a billion dollars on acquisitions, a strategy with high integration risks.

During the quarter, we took a new position in Telus common shares when the company went to market and raised in excess of one billion dollars. This massive capital raise obviously caused the stock price to temporarily weaken. With a yield in excess of 4%, we view this as a low risk, “cash alternative” investment.

Finally, we took a position in the Toronto listed, U.S. based, Flagship Community REIT. Flagship specialises in the unglamorous sector of mobile home parks (aka: trailer parks). Revenue is derived from leasing the land the manufactured homes are placed on.

The REIT owns and operates a high quality portfolio of 54 income – producing manufactured housing communities (MHC) comprising 8,793 lots, located in Midwest U.S. Markets. The REIT is positioned as a consolidator in the highly fragmented MHC industry.

Manufactured housing is predominantly a land lease business model, whereby residents are owner – occupiers of their homes and rent a lot on which to place their manufactured trailer home within a community.

There are many smart institutional investors in this space (Blackrock, Goldman, Morgan Stanley) as it has excellent growth prospects, financial fundamentals, and high barriers to entry (due to numerous zoning restrictions).

Finally, two of the Funds largest positions had solid 6 month returns.
Berkshire: +19.8%; SNC: +48.6%
Nonetheless, Berkshire shares lagged in the second quarter.
We expect more subdued investment returns for the remainder of the year – including the likelihood of a market correction.

OUTLOOK

"The relevance of high [stock] valuations isn't – as often though – that they point to a crash. Rather, they are an indication that, over the long run, gains might be lower."

Jon Sindreu
Wall St Journal
April 10th, 2021

"Investor sentiment is still the best <u>risk management tool</u> you have. (In addition to not overpaying) Investor sentiment is a contrarian indicator that signals caution when your cab driver, hairdresser (or condo neighbour) tells you to buy something…"

Tom Bradley - Steadyhand
Chief investor officer
June 19th, 2021

"Very few people are focused on a resurgence of the pandemic… whenever a risk is being largely ignored it's important to bring to light that it's a real possibility."

Kristina Hooper
Invesco Global Market Strategist
July 11th, 2021

"Making calls about a bubble at the aggregate market level is a fool's errand."

Robin Greenwood
Harvard Business Prof
May 8th, 2021

Back in 2000 (internet peak year) investors had an appealing alternative to stocks with 10 year treasury bonds yielding over 6%! (While the earnings yield on stocks were only 4%) Today, the 10 year bond yield is a mere 1.35%, not much competition for the 3%+ earnings yield on stocks. Simply stated, today's bond yields are still not providing much competition for investors dollars!

In Conclusion:
The most obvious threat to stocks is the Federal Reserve, rather than the market's overvaluation. If the Fed raises rates, or 10 year treasury yields rise significantly, cash and bonds suddenly look much more attractive, and the TINA justification for buying expensive stocks is undermined. Of course, a totally unexpected "geo-political" or "pandemic shock" is always a threat looming in some far off corner of the world.

Respectfully yours,

Benjamin D. Horwood
Portfolio Manager
July 25th, 2021

Value Contrarian Equity Fund
Next Fund purchase
date: August 20th, 2021
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.