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 .789¢). 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 Third Quarter
Value Contrarian Equity Fund

Dear Partners,

Fed intervention set off the current bull market rally in March 2020, and it's not hard to imagine that Fed intervention (rate hikes) could end it.

Jeff Sommer
Journalist, Wall St Journal
Nov. 21st, 2021

Investors seem to have forgotten the lessons of the technology (1995-2000) bubble. Lofty valuations, (i.e. stocks associated with today's innovation, disruption and tech themes) can significantly hurt (investment) returns even if the economic themes do come true.

Richard Bernstein
CEO, Bernstein Advisors
Oct 7th, 2021

… History shows valuations, and not stories, ultimately determines investment returns. (A golden rule investors should never forget during periods of stock market euphoria)

Richard Bernstein
CEO, Bernstein Advisors
Oct 7th, 2021

Third Quarter Performance

Your Fund ended the third quarter with a net asset value of $4,295.57 per unit, an increase of $541.96 from the December 31st, 2020, net asset value of $3,753.61 per unit (after distributions). This represents a **year-to-date return: + 14.4%** (TSX: +17.48%).

During the quarter, we took advantage of investors' FOMO (Fear Of Missing Out), which has contributed to record high stock valuations. As a result, your manager was a net seller of equities for the quarter. Sales included, SNC Lavalin, Realogy Holdings, CN Rail, and Knight Therapeutics.

We cut our long-term CN Rail position in half due to potential regulatory risks. Simply stated, CN managers contractually agreed to be a buyer of Kansas City Southern (KCS) regardless of whether the U.S Transport Board approved of its takeover bid or not.

Theoretically, CN Rail positioned itself to be a forced buyer, and in light of a negative regulatory decision, a forced seller of KCS. We were not prepared to leave the fate of our CN investment at the mercy of managements reckless negotiating skills/business terms, or the wild west of American regulatory capitalism.

Realogy Holdings, the largest century 21 franchisor, was able to ride the wave of rising residential real estate prices. Bought during the depths of the COVID-19 panic (average cost: $4.10), we sold our remaining 30,000 shares above $18.00.

During the quarter, we also said goodbye to the bulk of our position in Knight Therapeutics. We took a small loss and will certainly revisit this story during the next severe bear market.

In diplomatic terms, Knight bought itself a South American pharma "fixer-upper". In reality, it bought a "dog's breakfast" of volatile South American currencies and grinding integration difficulties across ten different Latin American countries.

As a result, and despite huge share buybacks, you have a stock price that has been under constant pressure since day one of the Biotoscana (GBT) acquisition by Knight. Covid has certainly not helped the situation.

Timing is everything in life. Buy an unloved, cheap small cap stock like Knight at the bottom of the next bear market, and you could potentially be looking at a 3-5x bagger. Patience required, my dear Watson!

We continue to see irrational investor exuberance all around us. One anecdotal story gives us particular cause for concern. It is stories like this which mark stock market peaks. We call them "folklore" indicators.

In short, a very conservative mature investor contacted us a few weeks ago to enquire about buying a profitless, but "sexy" electric vehicle Startup. While at a recent dinner party, a professional acquaintance crowed about doubling their money by speculating in bitcoin during 2021. Of course, no one shares stories of investments gone bad!

From our 30+ years of stock market experience, retail investor enthusiasm like this, often represents a classic sign of a peaking market. I call it Ben's **"Get Me In"** theory.

Remember November 2021. Proceed with caution.

OUTLOOK

> **"There are really bad things about high inflation. The first is how it disrupts the economy and damages growth. The second, and probably the worst, is the pain (medicine) that must inflicted on real people to wring inflation out of the system."**
>
> **Christopher Ragan**
> **McGill University Economist**
> **Nov 23rd, 2021**

> **"ISRAEL's best hope is that its threat of action (against Iran), combined with Western diplomatic and economic pressure, will persuade Iran to agree to a diplomatic deal… The danger is that the Mullahs conclude that only nukes will keep their regime safe."**
>
> **The Economist**
> **October 30th, 2021**

History has shown the painful medicine that wrestles inflation to the ground is severe "monetary tightening". Simply stated, this jacks up interest rates and creates a deep recession with significant unemployment (1979-1982). Investors who lived through the economic pain of the late seventies and early 1980's will remember this period well. Turf enough people out of work, and inflationary demand gets strangled!

According to the Wall Street Journal, today's U.S inflation has been rising at its fastest pace since 1990, with consumer prices climbing 6.2% in the 12 months through October.

Inflation can be negative for stocks in two basic ways.

1) Sustained inflation leads to higher interest rates, making bond yields more competitive in relation to stocks.

2) It causes price- earnings (p/e) multiples to contract. P/E contraction is a "silent killer" of a high-priced stock market. (A p/e multiple of 32,

means $1 of Microsoft earnings per shares translates into a $32 stock. While a p/e of 19 translates into a $19 stock.)

The question remains, should inflation not be "transitory", will the U.S central bank and the general public be ready to drink the "KoolAid" of much higher rates?

The other danger is if "Dr. Fed", in the face of these persistent inflationary symptoms, fails to rigorously apply the needed medicine (sharply higher rates). Wait too long, and the ultimate treatment may be far more severe than initially required.

Finally, surprise geo-political risks always lurk in the background (think Israel-Iran… China-Taiwan). And while the stock market party continues to rumble on, corrections and volatility will produce both surprises and opportunities in 2022. With rates so low, any future hikes would have to be significant in order to seriously derail this stock-market party.

Respectfully yours,

Benjamin D. Horwood
Portfolio Manager
November 26th, 2021

Value Contrarian Equity Fund
Next Fund purchase
Date: November 26th, 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.