

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 20% 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

**2023 First Quarter
Value Contrarian Equity Fund**

Dear Partners,

This year's stock market [rally] is split in two. One consists of a few big technology companies [The Mega Cap-8], and it's booming. The other is everything else, and it's stinking up the joint... If your funds hold plenty of the biggest technology stocks this year, you've made lots of money. And if you don't, you haven't!

**Jason Zweig
Wall St Journal - Columnist
May 20-21, 2023**

Tehran has enriched uranium to such levels that US officials have warned in recent months it could produce sufficient material for a nuclear weapon in less than two weeks.

**Andrew England
Financial Times of London
June 3-4, 2023**

The thing that worries me is that Iran's decision-making is quite chaotic and it could stumble its way into war with Israel.

**Western Diplomat
Financial Times of London
June 3-4, 2023**

Zero interest rates [aka: free money era] of the past 14 years has created many **bad** investment decisions in corporate America. One need only look to Silicon Valley Bank, and the numerous U.S. regional banks, who loaded up on 20-30 year U.S. treasury bonds. Despite no credit risk, these supposed risk-free government bonds can and will crater in value during an environment of rising interest rates.

Sustained and prolonged high interest rates is like watching a slow motion train wreck. There's an old saying, "whenever the Fed hits the brakes [ie: raising interest rates], someone goes through the windshield." Silicon Valley Bank went through the windshield this past March! It's still unclear how many other companies and "non-bank" financial institutions do not have their seat belts properly fastened! Will office towers and regional shopping malls be the next victims?

In the coming 12-24 months, investors should expect more negative fallout from the combination of high interest rates and past sins of overleverage. Barring an OMG geopolitical event, we don't see the lows of October 2022 being revisited during this economic cycle.

First Quarter Performance

The stock market is near a one-year high, giving many investors comfort. But down below, debt (credit) markets are creaking under the strain of rising interest rates.

Matt Wirz
Wall St Journal
May 31, 2023

The S&P 500 has risen 8% so far in 2023, but 80% of the increase has been driven by just seven [tech] companies according to Bloomberg data [Nvidia, Apple, Microsoft, Amazon, Meta, Alphabet, Tesla].

Katie Martin
Financial Times of London
May 1, 2023

Charlie and I are not stock-pickers; we are business-pickers. Our goal ... is to make meaningful investments in businesses with long-lasting favorable economic characteristics

Warren Buffett
CEO Berkshire Hathaway
2022 Annual Report

Your Fund ended the first quarter with a net asset value of \$4,091.37 per unit, an increase of \$58.73 from the December 31, 2022 net asset value of \$4,032.64 per unit [after distribution]. Year-to-date, March 31st, your Fund returned: +1.5%.

Despite the robust rise in interest rates since the start of the year, the major stock indexes have shrugged off a “run” on U.S. regional banks, recession worries, and a debt-ceiling standoff.

Up until early June, the S&P 500 broad stock market index has been propelled higher by just a few tech stocks (7-8 to be specific). In other words, “market breadth” has been very poor. Not a healthy sign to the potential start of a new bull market.

In other words, only a handful of the 500 stocks are carrying the market index higher.

To better illustrate my point – one need only compare the returns January 1 to May 31 of the following two indexes.

Index A) S&P 500 : +9.68% **

Index B) S&P 500 Equal Weight : -(0.67%)

In Index A, 7 stocks represent approximately 25-30% of the index. It is these 7 mega cap stocks propelling the index higher.

In Index B, also containing the same 500 stocks [but in equal weight] the index is negative for the year!

Investors must look under the cover to truly understand what’s going on in the equity markets.

On a positive note, regarding “market breadth”, since the beginning of June, small capitalization stocks [as represented by the Russell 2000 index] have shot up 7.5% in one week!

Time will tell if “market breadth” is truly improving or if this is merely a short-term bounce. The longer the bear market lows of October 2022 are not breached, the more this becomes a positive indicator and new lows less likely.

**[The S&P 500 is a capitalization-weighted index. The most valuable stocks like Mega Cap tech stocks, have an outsized effect on stock market returns.]

During the quarter we took a new position in Sleep Country Canada and added to our position in Mainstreet Equity.

Mainstreet Equity is a non-dividend paying Canadian real estate company focused on acquiring and managing mid-market [\$1,000 monthly rents] rental apartment buildings primarily in Western Canada.

The company presently owns 16,963 units, the bulk of which are in BC (3,676 units), Alberta (9,558 units), and Saskatchewan (3,324 units). Manitoba is a new market (405 units).

What we like most about Mainstreet is its founding [shareholder-friendly] controlling shareholder – President Bob Dhillon, and his obsessive purchase discipline. Moreover, Mainstreet has significant acquisition growth opportunities using a proven value acquisition strategy.

Simply stated, Bob employs a non-dilutive growth model (don't expect Mainstreet to issue more shares). Unlike most real estate REITs, Mainstreet pays no dividends, and issues no new equity to grow. Instead, it reinvests its cash flows by acquiring underperforming (mid market apartment) assets while boosting cash flows. In the words of its company founder, "We will maintain our strategy of counter-cyclical growth by acquiring assets only when it prioritizes true value creation".

Finally, there is hidden long-term upside in this stock. The important Vancouver/Lower Mainland markets are where 95% of Mainstreet customers are paying below average market rents. The company estimates that this translates into approximately \$23 million of net operating income growth potential.

This is a stock that one puts away in a safety deposit box. And when one returns ten years later, you leave with a smile on your face.

Finally, Sleep Country is a classic, unloved, undervalued Canadian small cap play. The story is simple:

- 1) Canada's #1 brick-and-mortar & online mattress retailer – (Sleep Country + Dormez-Vous)
- 2) Extremely profitable with lots of excess cash flow.
- 3) Generous dividend, yielding 3.56%.

- 4) Shareholder friendly. In fiscal 2022 the company bought back over \$55 million of its equity.
- 5) No controlling shareholder, thus ripe for a takeover from a mattress manufacturer or a leveraged buyout firm.

Yes, a boring, old economy mattress retailer can make for a sexy long-term investment. The icing on the cake – an eventual takeover.

OUTLOOK

We are in what I would call "A Shitty Little Bull Market". Although the S&P 500 entered a new bull market last week, closing 20% above its October 2022 low, nonetheless it's an "anemic" and "underachieving" bull. By that I mean both in magnitude of gains and breadth of participation.

Ben Horwood
Fund Manager – Value Contrarian
June 12, 2023

When the Fed slams on the brakes [and sharply raises interest rates], there's always someone who "smashes through the windshield!" This time it was Silicon Valley Bank & Credit Suisse et al... Who will be the next victims?

Ben Horwood
Fund Manager – Value Contrarian
June 1, 2023

With Mr Powell aspiring to achieve the performance of his illustrious predecessor Paul A. Volcker, who vanquished inflation in the 1980's and set off two recessions to do it, it's a fair bet that the Fed won't back off its rate tightening policy soon. Bring down inflation and you are likely to be remembered as a hero. Bungle the job ... [and the history books will remember a hopeless incompetent Fed Chairman at the wheel].

Jeff Sommer
NY Times Columnist
March 12, 2023

Yes, you read my words correctly. I have called the present market – “A Shitty Little Bull Market”.

Other than tech and AI, for the most part there has not been a broad-based snap-back in stocks during 2023. What was slaughtered the most in 2022 (tech) has rebounded the most in 2023. Remember, in 2022 the TSX Index did not enter a bear market, and the Dow barely met the bear market definition. Simply stated, the bear of 2022 did not envelop the entire market into bargain basement territory, as was the case in March of 2009 or March of 2020. What doesn't suffer a steep decline, does not benefit from a huge snap-back recovery (stock market physics 101). Market physics 101 has so far worked well regarding tech mega cap stocks in 2023.

Note: I was wrong in my year-end 2022 outlook, as I predicted that in any new bull market, the old FAANG tech leaders would no longer dominate. I obviously spoke too soon.

Nonetheless, in June, Berkshire Hathaway, more of an old economy value play, hit a 52-week high.

Observations:

- 1) March brought us a “mini” OMG (Oh My God) event with the demise of Credit Suisse and Silicon Valley Bank. Regardless, the markets did not tank or make new lows. A good sign.
- 2) It appears the “higher for longer” interest rate policy of the Feds, will certainly dampen future stock market returns, but not eradicate positive returns in 2023.
- 3) Barring a true, full-on, OMG geopolitical/financial event, the October 2022 market lows will remain the lows (of this cycle!!).
- 4) 8%-15% corrections are possible should continued high interest rates create more spectacular “road kill”.
- 5) Finally, on a positive note, the Dow and S&P 500 will reach record highs over the next 12-36 months (again, assuming no Tehran/Israel – China/Taiwan – Russia/Ukr, disasters).
- 6) What would cause the Fed to reverse course and lower rates? A horrific geopolitical/financial “OMG” event, with a plunging stock market.

Upcoming Changes At VCAM

After 11 years at VCAM, we are sad to say that Chiraz Chakroun will be transitioning into new endeavours come this September. We wish her all the best and know she will be a success in whatever field she chooses. We have been very fortunate to have such a loyal member on the VCAM team over these years.

As we previously announced, Domenico Marti and Mahmoud Shaker will be carrying VCAM into the future.

Respectfully yours,

Benjamin D. Horwood
Fund Manager
June 12, 2023

Value Contrarian Equity Fund

Next Fund purchase

Date: June 22, 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.

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