Les investissements Rivemont Investments

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Financial Letter
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Introduction

Hello everyone,

Rarely has a quarter ever been as enjoyable for Rivemont Investments as this one was. The primary objective of our overall strategy of technical analysis and trend-following is to ensure that investors avoid serious losses when markets are in sharp decline. While U.S. and Canadian markets experienced a disastrous third quarter with respective losses of 6.5% and 7.7%, none of our portfolios lost value during the same period. In addition, the Rivemont Absolute Return Fund, which has a mandate to generate positive returns in all market conditions, had an exceptional quarter with a return of 17%. Our conservative approach, which aims to reduce volatility, especially in difficult times, clearly delivered.

In this financial letter, I will begin with a more detailed review of our performance, with a particular focus on the specific transactions that allowed the fund to produce such strong results. Given the considerable influence the President of the Federal Reserve has on the markets at the moment, I will discuss the impact of the direction of interest rates on the performance of different asset classes. As usual, I will conclude with our outlook on the markets and the preferred securities in our portfolios.

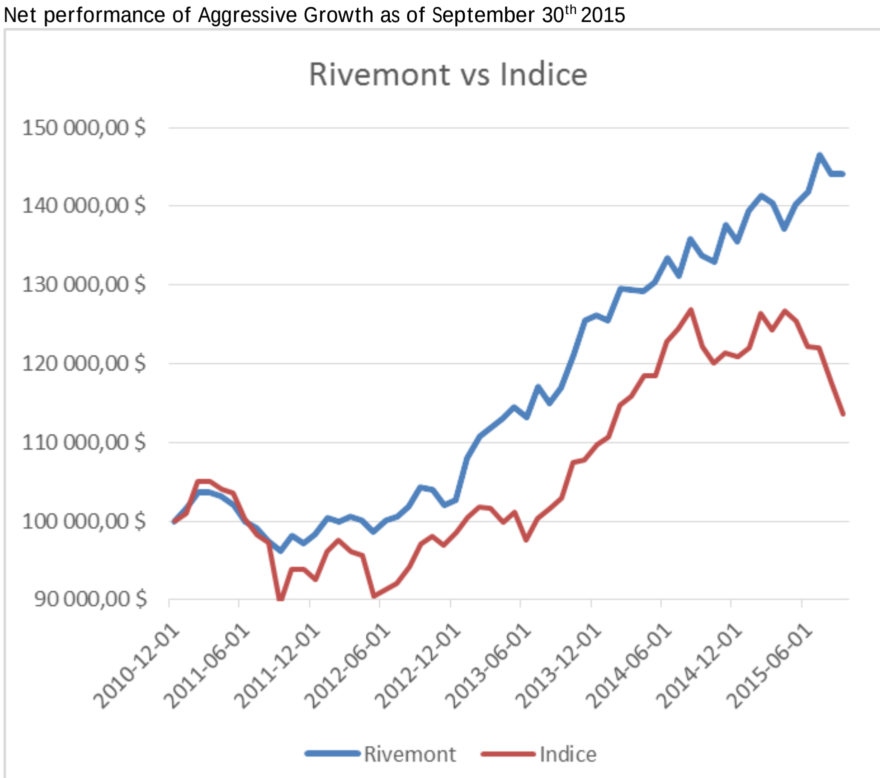
Happy reading!

Performance

Net performance as of September 30th 2015

	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	Inception
Hedge Fund							
Rivemont Absolute Return Class F	**1,8%**	**16,9%**					**23,2%**
Traditional							
Aggressive Growth	**0,0%**	**1,5%**	**1,9%**	**7,5%**	**11,2%**	**12,2%**	**8,6%**
Index	-3,2%	-6,8%	-8,3%	-6,6%	5,0%	5,2%	2,7%
Growth	**0,1%**	**1,3%**	**2,0%**	**8,2%**	**11,2%**	**11,4%**	**7,8%**
Index	-2,6%	-5,3%	-6,9%	-4,2%	5,1%	4,7%	3,1%
Moderate Growth	**-0,2%**	**0,0%**	**0,0%**	**6,9%**	**9,4%**	**9,4%**	**6,2%**
Index	-2,0%	-4,0%	-5,6%	-2,0%	5,3%	4,3%	3,5%

Net performance of Aggressive Growth as of September 30th 2015



« We did not suffer too much from the drop. »

Rates of more than one year are annualized. The indices include the return of the S&P/TSX Capped Composite Index and the DEX Universe Bond Index in the following proportions: Aggressive Growth: 90% equities, 10% bonds; Growth: 75% equities, 25% bonds; and Moderate Growth: 60% equities, 40% bonds. The yield of Rivemont Investments is the average performance of all accounts of over $100,000 at the beginning of the year and under 100% discretionary management, including accounts that are no longer active. The net yield is calculated after all costs (management, custody and commissions) and using the ROR method. Past performance is no guarantee of future results.

Three main factors explain the firm's performance over the last quarter:

1. An underweight in equities in the portfolios
2. An average performance from selected stocks
3. The positive performance of Rivemont Absolute Return Fund

The first factor: by June of this year, we had already reduced the equity weighting by about 10%. But on August 21, just before the plunge in the stock market, we sold the index portion from the equity category of our holdings, which resulted in an additional underweight of 10% to 20%. As a result, we did not suffer too much from the drop in stock prices. At the end of September, all portfolios had high liquidity. We only started to add stocks in October when the market seemed to regain a firmer footing. One of the stocks we added was Stewart Information Services, a financial intermediary working in the U.S. housing sector. This stock showed promising bullish momentum at the beginning of October when we added it to our portfolios. Moreover, we think it could become an attractive acquisition target for a major U.S. financial institution.

« Only the hardiest stocks form the core of our portfolios. »

The second factor: when a stock goes from an uptrend to a downtrend, we will rarely wait on it. We usually opt to quickly eliminate it from our portfolios. As a result, only the hardiest stocks form the core of our portfolios. For this reason, we did not hold any securities linked to the oil sector, which experienced the biggest losses in the last quarter. In addition, we had a majority of U.S. equities which meant that with the significant drop in the Canadian dollar, even though the prices of these stocks declined, we still avoided painful losses.

We are also quite satisfied with our decision to avoid emerging markets, as they have collapsed even more dramatically than developed markets. The Chinese market suffered major losses even though it was soaring only a year ago. South American markets, and in particular the Brazilian market, also experienced an especially difficult quarter. In my view, government intervention, particularly in China, will have no effect in the short-term. What goes up too quickly will eventually come back down to its long-term growth rate. We missed the rapid rise of Asian stocks in 2014, but we also avoided the crash: Chinese Market 1 – Rivemont 1.

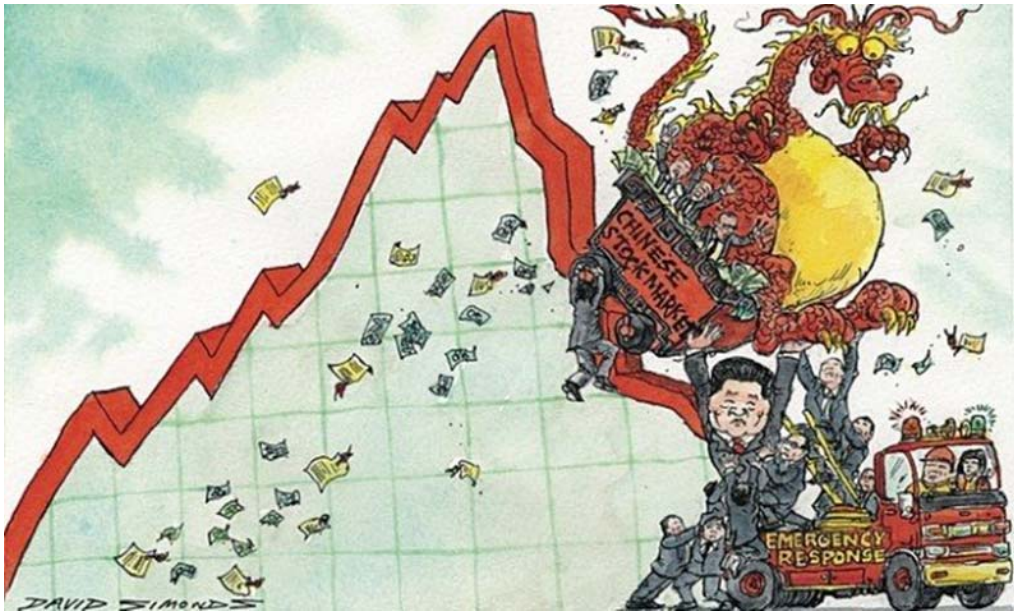
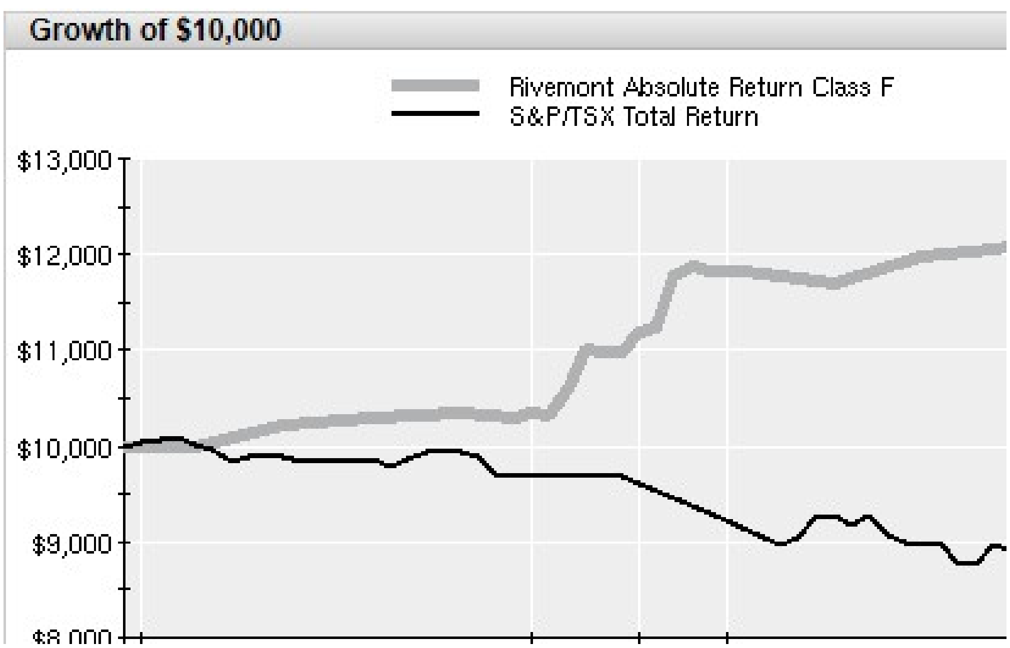


Image : David Simonds/The Observer

« The fund achieved its goal while facing its first real storm. »

Third factor: The Rivemont Absolute Return Fund took advantage of the third quarter of 2015 to stand out from its peers and become **the best performing fund in Canada across all categories** according to the Globefund website (quarter ending September 30, 2015, excluding ETFs).



This fund, which aims to provide positive returns in all market conditions, achieved its goal while facing its first real storm in the last quarter. Over these three months, it yielded 17%! To achieve this feat, we focused on rapid market decline by short-selling in the weakest sectors of the fund to take advantage of declining prices. For example, we sold ICON for $24 and re-purchased it at $15, VIAB sold for $61 and was redeemed at $41 and SFM sold for $27 and was re-purchased for $21. Our strategy works in uptrends and downtrends. We recovered our outlays in early October when the markets began to recover. However, we are obviously prepared to make full use of short-selling if the markets lose foot once again.

Interest rates and Markets

« Low interest rates encourage individuals to consume. »

Recently named the most powerful woman in the financial world, Janet Yellen is Chair of the Board of Governors of the U.S. Federal Reserve (Fed) and head of the committee responsible for the monetary policy of the United States. This committee meets about eight times a year, and its primary responsibility is to set the short-term interest rate. It is extremely important since all other interest rates for things like car loans, mortgages or business loans, are set according to the short-term rate announced by the central bank. Thus, low interest rates encourage individuals to consume and companies to invest since access to capital is less expensive. Conversely, a rate on the rise will slow consumption and business investment. However, buoyant economic activity and low interest rates will have a perverse effect: a rise in inflation. The challenge for central banks is to find the balance point that will keep the inflation rate at around 2% while sustaining economic growth.

However, what interests us most is the impact of these rates on the financial assets in which we invest. We know, as I have already discussed at length in previous financial letters, that bond yields and interest rates have an inverse relationship. A rise in interest rates lowers the value of a bond. But what about the value of stocks? Is there really a link between the policy rate and stock returns? There is a well-known adage: "Don't fight the Fed." But is this assertion well-founded?

Johnson, Jensen and Garcia-Feijoo answered this question in their latest book *Invest with the Fed*, the first major study on the subject. And the answer could not be clearer.

Performance of S&P 500, January 1966 to December 2013

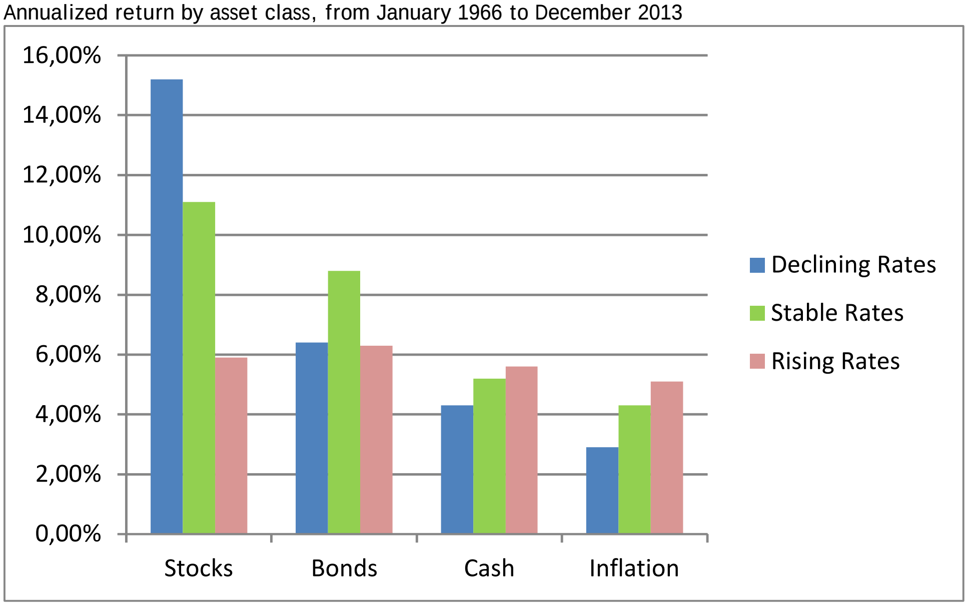
	Total Average Return	Declining Rates	Stable Rates	Rising Rates
S&P 500 Performance	10,56%	15,18%	11,10%	5,89%
Level of Inflation	4,16%	2,86%	4,33%	5,13%
Net Performance	6,40%	12,32%	6,77%	0,76%

The "lowering rates" period includes any period of quantitative easing.

« Markets yielded over 15% when rates were lowered. »

As this table shows, markets yielded over 15% when rates were lowered, and only 6% when they rose. If we look more closely at the net return, we realize that it almost becomes zero in periods of monetary restraint and exceeds 12% in an expansionary period. As seen over the past 6 years, the rate cut really helped the markets reach new heights. Let's look at how asset classes behave based on the movement of interest rates.

Annualized return by asset class, from January 1966 to December 2013



In times of rising interest rates, all classes are equivalent, resulting in yields of 5.6% to 6.3%. But in periods of decline, stocks stand out dramatically!

The authors went even further in their study by showing which classes of stocks perform better. Thus, in periods of falling interest rates, it is small cap companies and retail that are doing well. While in times of rising rates, the mining and energy sectors perform better.

Rest assured that we will be positioned advantageously for future interest rate moves by central banks, as the authors' conclusions only confirm, in large part, what we already knew...

Market Prospects

Rivemont Investments			
Subject	Question	Recommendation	Comments
Allocation between equities and fixed income securities.	Which are most interesting, stocks or bonds?	Neutral weight in both asset classes.	We recommend adding alternative investments to portfolios.
Distribution between Canadian, U.S. and international.	Which markets are most interesting: Canadian, U.S. or international?	Canadian stocks have become interesting again.	Even distribution between the American and Canadian markets. We are avoiding emerging markets for now.
Distribution between corporate bonds and government bonds.	Which are more interesting, corporate bonds or government bonds?	We recommend corporate bonds and government bonds.	We recommend short and medium-term corporate bonds and Canadian government bonds.
Investments in Canadian dollars or in foreign currency.	Do investments in other currencies increase or decrease the total yield?	The progress of the Canadian dollar could be interesting.	Gradual return to Canadian equities.

Favorite Securities

You will find below a list of the eight individual securities with the largest weight in our "growth" portfolio. These stocks were selected based on their respective potential to outperform the stock market. You will find a short description of their activities, the annual dividend, if any, and the total return since their first inclusion in our portfolio.

Dated : October 30, 2015.

1) Symbol: SIRO
Name : **Sirona Dental Systems**
Description : Dental equipment.
Dividend Yield: N/A
Total Return: 53.4 %

2) Symbol : LEN
Name : **Lennar**
Description : Homebuilder.
Dividend Yield: 0.3 %
Total Return: 35.5 %

3) Symbol : FDS
Name: **Factset Research Systems**
Description : Financial information systems.
Dividend Yield: 1.0 %
Total Return: 71.6 %

4) Symbol : AGT
Name : **AGT Food and Ingredients**
Description : Lentil and pea splitting company.
Dividend Yield: 2.0 %
Total Return: 68.0 %

5) Symbol: HMN
Name : **Horace Mann Educators**
Description : Insurances.
Dividend Yield: 2.8 %
Total Return: 23.6 %

6) Symbol : STC
Name : **Stewart Information Services**
Description : Real Estate Intermediary.
Dividend Yield: 2.4 %
Total Return: -2.4 %

7) Symbol : SLF
Name : **Sun Life Financial**
Description: Insurances and investments.
Dividend Yield: 3.4 %
Total Return: 10.6 %

8) Symbol : PBCT
Name : **People's United Financial**
Description: Regional banks.
Dividend Yield: 4.1 %
Total Return: 9.2 %

Conclusion

I would like to thank you for continuing to read my reports six years after our journey began. I continue to receive positive feedback about these financial newsletters and intend to continue publishing them for a long time to come. Please do not hesitate to contact me if you wish to discuss my articles in more detail. Discussing finance has always been a passion of mine.

I am also pleased to announce that the Class F Rivemont Absolute Return Fund has been nominated for the 2016 Hedge Fund Awards. This is a first for the firm, and one of which we are very proud. This is one of the joys of having fully aligned our interests with those of our customers. When you win, we also win, and vice versa!

Sincerely,

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