Financial Letter
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Introduction

Hello everyone,

Over the past six years, our technical analysis and trend-monitoring strategy has enabled our investors to avoid major losses, particularly in the Canadian market. But even with this strategy it is unfortunately not possible to beat the market every time. Those who have followed us over the years are aware of our great aversion to loss. Because of this, in times of high volatility, our portfolios include certain conservative securities to protect against sudden drops. Occasionally, however, this volatility can produce attractive returns, as was the case in the first half of 2016. What is more, during the same period, the Canadian dollar gained more than 10%, lowering the value of U.S. stocks by the same percentage. As such, although we managed to preserve our capital, our performance over the last quarter did not surpass the benchmark.

While we abandoned the resource sector for several years – and with great success – it has rebounded dramatically in recent months. We had been expecting this shift for some time and therefore invested the index portion of our portfolios in the Canadian market. It is quite possible that this rise is only the beginning of a longer-term trend, especially for the silver and gold sectors.

We will begin this newsletter by presenting our thesis on Brexit. The decision made by the British shook markets around the world. I will explain why this event is likely to be a good buying signal for investors. I will then take a look at a brand new and completely absurd phenomenon: negative interest rates. After that, you will find a short article on the relevance of

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hedge funds written by my colleague Jean Lamontagne. As usual, I will conclude with our outlook on the market and preferred securities in our portfolios.

But before we begin, I would like to take a moment to introduce our new Investment and Administration Analyst, Antoine Parent. Antoine is a Gatineau native who recently graduated from HEC Montréal in Finance. He also undertook the challenge of completing his CFA certification, in which he is currently a Level 1 candidate. He will mostly be responsible for the administration of accounts, including withdrawals and contributions to registered accounts as well as weighting of assets in portfolios. Our small team is now better equipped to support the rapid growth of the assets under our management.

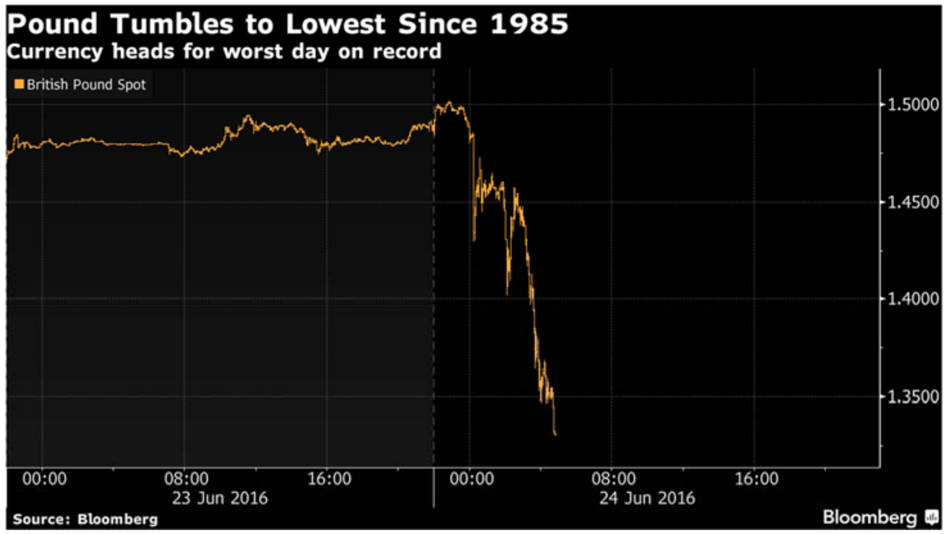
The resource sector has rebounded dramatically in recent months.

Happy reading!

Brexit

On June 23, more than 30 million British voters went to the polls to decide the fate of England in the European Union. They voted 53.4% in favor of withdrawal from one of the world's most powerful economic unions, including splitting off from Germany and France. As an avid supporter of the free trade of goods between countries and regions, I was saddened by this decision because of the direct negative consequences for the economies of the region. It also opened the door to a reality that I would describe as disturbing: the rise of a more socially acceptable right wing, along the same lines as Le Pen in France or Trump in the U.S. However, when it comes to our investors, our opinion does not matter. And that's how it should be. All that matters, of course, is that we remain equipped to take advantage of these interesting developments.

Brexit's first victim was the British pound. Clearly, a decline in trade between England and its largest trading partner will lead to a drop in demand for its currency. In addition, certain large banks will have to leave the City of London and return to the mainland. The table below shows the evolution of the pound at the time of the vote.



Source : Bloomberg

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Since we do not have any British stocks in our portfolio, this rapid movement did not have an impact on our investments. However, in addition to currency implications, the decision had a significant impact on global banks.

The 2-Day European Bank Massacre
As of June 27, 2016 WOLFSTREET.com

	Stock Price	Plunges	
	Monday	Monday	2-day
UK Banks, in £p			
Barclays	127.20	-17.3%	-32.0%
Royal Bank of Scotland	174.30	-15.1%	-30.4%
Lloyds Banking Group	51.15	-10.3%	-29.1%
HSBC	438.00	-2.2%	-3.6%
German Banks in €			
Deutsche Bank	12.58	-5.1%	-20.2%
Commerzbank	5.94	-4.2%	-16.5%
Swiss Banks in CHF			
UBS	12.50	-8.1%	-18.4%
Credit Suisse	10.21	-9.2%	-21.8%
French Banks in €			
BNP Paribas	36.91	-6.3%	-22.6%
Credit Agricole	7.19	-6.0%	-19.2%
Societe Generale	26.39	-8.4%	-27.2%
Italian Banks in €			
UniCredit	1.91	-8.2%	-29.8%
Intesa Sanpaolo	1.55	-10.9%	-31.4%
Banca Monte dei Paschi di Siena	0.39	-14.5%	-27.1%
Spanish Banks in €			
Banco Santander	3.30	-2.4%	-21.8%
BBVA	4.76	-1.7%	-17.6%
CaixaBank	1.89	-1.6%	-33.7%
European Banking Index			
Stoxx 600 banking	119.14	-7.6%	-21.1%

In this table, we see that the index of European banks collapsed by over 20% in two days! Unfortunately, this collapse had some effect on our portfolios. We held stock in two banks (PBCT and TD) and an insurance company (Sun Life) and all were in sharp decline, though not to the same degree. Overall the impact was significant in the week following the vote. As a result, we sold the PBCT shares at a loss to mitigate risk due to our significant exposure to the financial sector.

But what is the real impact of this vote for North American investors? In truth, this story could have a rather positive ending... Let me explain. If I trust my intuition, I do not think Brexit will have a tangible impact on the profitability of companies that trade on our stock markets. Economic growth in Europe has stagnated for a long time and multinationals are no longer investing much in the region, unlike in Asia, or Africa. In my view, profit growth should remain the same. However, it is quite possible that central banks will delay future interest rate hikes for fear of Brexit's spillover effects. Low interest rates also mean higher market valuation for companies! An overall negative event could have a positive effect because of its impact on interest rates.

Negative interest rates

Nothing is more imminent than the impossible.

Victor Hugo

Imagine that a couple (some friends of yours) comes to see you to borrow $5,000. You agree to an interest rate of 5% (which is nice of you since these friends are really closer to your spouse). A year later, they hand you $5,250, and your marital bliss returns. That's the scenario we might usually expect...

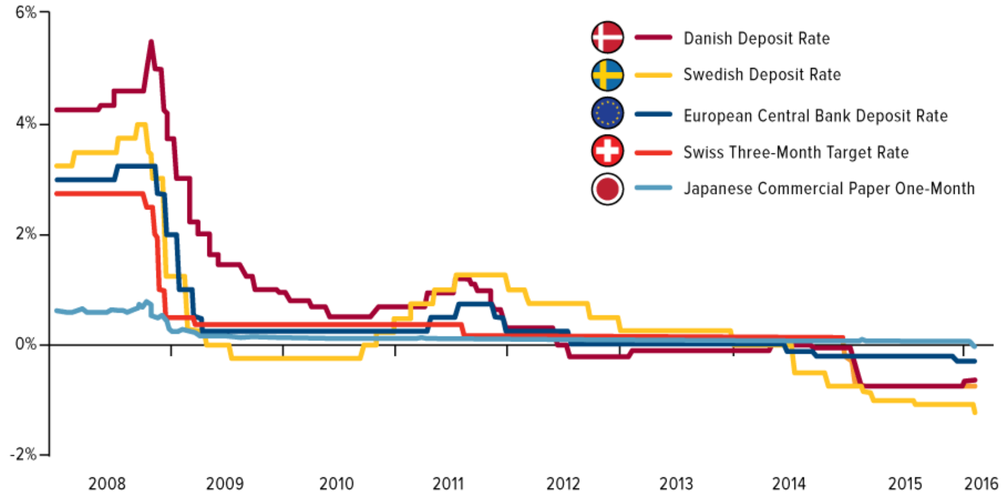
But now imagine that the interest rate is negative. The same couple comes to see you (but now they are not such good friends...). They borrow $5,000 at -5% for the same period, and give you $4,750 after 12 months.

Let's stop and think about this... Is it just me or is there something wrong with this second loan?

Well, it seems that in today's world it is quite normal. Right now, 27% of the total value of government bonds in the world are trading at negative interest rates. In other words, investors are paying the governments to whom they lend money. This makes no sense. The graph below shows the evolution of rates in some countries since the 2008 crisis.

Right now, 27% of the total value of government bonds in the world are trading at negative interest rates.

Key Negative Interest Rates



Source: Thomson Reuters, U.S. Global Investors

What is particularly odd is the bond yield of countries experiencing financial difficulties. For example, the rate of a Spanish 10-year bond is about 1.5%, a lower rate than its American equivalent over the same period. Let us acknowledge, however, that when a situation is intuitively inconceivable, it is often only temporary. And if the rate partly reflects projected growth and inflation, some of these countries' economies have a long way to go...

The Relevance of Hedge Funds

Jean Lamontagne

In today's world of investments, we are all saying the same thing: it is difficult to find investments that offer attractive returns without significant risk.

Bond rates are at a historic low and many bonds offer a negative real return after inflation. Stocks offer the prospect of higher returns, but always with the risk of market corrections that can ravage a short- to medium-term portfolio. Moreover, investments in infrastructure and real estate as well as private deals are difficult for individual investors to access.

What type of investment can private investors add to their portfolios to improve their risk/return profile and guard against market turbulence? Hedge funds* can fulfill that need.

Alternative strategies that stand out are those that have a good history of positive returns, net of fees, accompanied by a very low, or negative, correlation to equity markets. These funds help diversify equity portfolios and balanced portfolios to better navigate bearish stock markets. When analyzing a hedge fund, investors must consider several factors, including:

A carefully selected hedge fund can improve the diversification of an equity or balanced portfolio.

- What were the returns? In this regard, it is important to consider the returns net of all costs (management, administration, commissions, etc.). Hedge fund management fees are often higher than those of traditional strategies. Expenses related to the performance of hedge funds are common. However, if the manager can demonstrate the ability to obtain a high net return after fees (and meets other criteria set by the investor, for instance, pertaining to risk and capital protection, these costs may be perfectly acceptable and justifiable given the specific expertise demonstrated by the manager.

- How volatile were the returns? Ideally, an investor wants low-volatility returns. In statistical terms, greater volatility increases the probability of a manager's underperformance or outperformance of the market. There are several measures of volatility (e.g. the standard deviation, the maximum loss and performance of the worst month), but a visual overview of monthly or annual returns can give a good indication of the degree of volatility of returns.

- What is the correlation between hedge fund returns and stock market returns? Correlation is a measure that indicates the relationship between a variable (e.g. stock market performance) and another variable (e.g. hedge fund performance). If there is a 100% correlation between stock market returns and hedge fund returns, these two variables are equivalent. Thus, if the stock market performance is 2%, the hedge fund performance will also be 2%. Instead, if the correlation is -100%, the fund would have a return of -2% (if the stock market rises by 2%). A low or negative correlation to equity markets is therefore preferred to provide healthy diversification to an equity or balanced portfolio and to mitigate the impact of a falling stock market on a portfolio.

The operational structure of the hedge fund must be solid.

- What is the fund's operational structure? It is important that a fund have a sound operational structure. The various stakeholders in the fund must be experienced and able to support it through their respective competencies. Of all stakeholders, the administrator of the fund plays a crucial role, since the calculation of the unit value must be accurate and error free. In addition, an accounting firm must perform an annual external audit. Ideally, this should be done by a large accounting firm that has extensive experience and deep knowledge in the field.

Undoubtedly, a hedge fund may bring sought-after balance to an equity or balanced portfolio; the trick is to find the right one! As with any investment, it is important to do your homework and to carefully analyze any fund before investing in it.

Happy investing!

Contrary to popular belief, hedge funds are no riskier than mutual funds.

* What is a hedge fund? Unlike mutual funds that mainly invest in equities, bonds and money markets, hedge funds also use financial instruments such as short selling (which focuses on the declining price of a security), arbitrage (which aims to take advantage of price differences between various similar securities) as well as put and call options (paying a premium to bet on the rise or fall of a stock price).

Contrary to popular belief, hedge funds are no riskier than mutual funds and can sometimes be less risky than equities. A hedge fund's risk profile is dictated by the controls put in place by the manager and how he manages elements such as: the diversification of portfolio positions; the maximum level of a security's position in the portfolio; the maximum net and gross exposure to the market; and tight management of the portfolio loss positions.

Market Prospects

Rivemont Investments			
Subject	Question	Recommendation	Comments
Allocation between equities and fixed income securities	Which are most interesting, stocks or bonds?	Neutral weighting of the two major asset classes.	We favour the addition of hedge funds to portfolios.
Distribution between Canadian, U.S. and international securities	Which securities are most interesting: Canadian, U.S. or international?	Preference for Canadian stocks.	Resource sector could rebound strongly.
Distribution between corporate and government bonds	Which are more interesting, corporate or government bonds?	Recommend non-governmental bonds.	We recommend short- and medium-term corporate bonds as well as high-yield corporate bonds.
Investments in Canadian dollars or in foreign currency	Do investments in other currencies increase or decrease the total yield?	Neutral movement of the Canadian dollar.	Further decline of the U.S. dollar is less probable because of recent positive economic data.

Favorite Securities

You will find below a list of the 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.

As of July 28, 2016

1) Symbol: AGT
Name: **AGT Food and Ingredient**
Description: Lentil and pea splitting company.
Dividend Yield: 1.9 %
Total Return: 85.6 %

2) Symbol: BCE
Name: **BCE**
Description: Telecommunications
Dividend Yield: 4.4 %
Total Return: 4.8 %

3) Symbol: SLW
Name: **Silver Weaton**
Description: Precious Metals.
Dividend Yield: N/A
Total Return: 2.9 %

4) Symbol: SLF
Name: **Financière Sun Life**
Description: Insurance.
Dividend Yield: 3.8 %
Total Return: 13.3 %

5) Symbol: XRAY
Name: **Dentsply Sirona**
Description: Dental Equipment.
Dividend Yield: 0.5 %
Total Return: 59.9 %

6) Symbol: WTR
Name: **Aqua America**
Description: Water utility company.
Dividend Yield: 2.1 %
Total Return: 13.7 %

7) Symbol: TD
Name: **TD Bank**
Description: Financial Services.
Dividend Yield: 3.9 %
Total Return: -0.7 %

8) Symbol: CL
Name: **Colgate Palmolive**
Description: Hygiene products.
Dividend Yield: 2.1 %
Total Return: 0.5 %

Conclusion

Regardless of the crises affecting them, stock markets continue to rise in the long run. At Rivemont Investments, our main strength is to protect the capital of our investors during the most difficult times. It is important to recognize that at the moment, despite what we hear in the media, the stock market is on an uptrend, and that returns over the coming months are expected to be very positive.

I would also like to mention that, in the coming weeks, we will participate in several finance-related conferences such as the International Management Summit in Quebec City, the World Alternative Investment Summit Canada in Niagara Falls, and the AIMA Canada Investor Forum 2016 in Montreal. It is important for institutional investors to know us better since they are usually very fond of strategies like the Rivemont Absolute Return Fund.

Thank you very much for reading this newsletter and continuing to trust us to manage your savings. Feel free to recommend us to your friends!

Sincerely,

Martin Lalonde, MBA, CFA
President

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