



Financial Letter Volume 8 Number 4



By Martin Lalonde, MBA, CFA, Jean Lamontagne, CFA, FICA et Philippe Jetté.

Introduction

Hello everyone,

One of the goals of a firm like ours is to increase our assets under management in order to have the means to put in place a solid foundation and thus to ensure the durability of the organization. We are pleased to announce that the assets under Rivemont's management have reached \$40 million. Although this is still small in an industry of big players that manage billions, we are now considered a serious and attractive option in Quebec and Ontario. It is true that the markets are responsible for a significant part of the 25% increase in assets under management since the beginning of the year. But as our method is particularly effective when markets are more difficult, we are more than certain to continue to offer special added value to our clients.

This newsletter will be a little different from past issues since a large part of it will be devoted to a specific subject. Indeed, for several months, we have been working on a particular project: the launch of a cryptocurrency fund called the Rivemont Crypto Fund. Based on blockchain cryptography technology, assets such as Bitcoin or Ethereum have grown phenomenally in recent years, and we believe this is just the beginning. To illustrate our point, consider as an analogy the spectacular bull market of the tech sector in the 1990s. If we draw a parallel with that situation, we estimate that we are in 1994 (the year of the advent of the Netscape browser), which means that there are potentially many increases to come in this area. In this issue of the newsletter, Philippe Jetté, our new Cryptocurrency Analyst, provides more details about this innovative technology and this new asset class.

November 1st, 2017

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We understand, of course, that given the extreme risk associated with this type of asset, it is not suitable for all types of portfolios or for all investor profiles. But we wanted to be the first to offer this type of product in Quebec and Canada.

Before we get into this specific topic, we will give you a quick overview of the previous quarter. The newsletter will conclude with our usual review of the markets and an outline of our most important positions.

Happy reading!

Latest quarter review

"The position in Kite Pharma is for this year our best pick."

After a longer than expected hibernation, the Rivemont Absolute Return Fund is slowly waking up, posting a positive return of 1.3% during the quarter. All of this growth is attributable to the acquisition by Gilead Sciences of Kite Pharma, a pharmaceutical company.



In June, we bought Kite stock at approximately \$92. In August, less than two months later, the stock was selling for \$180. That's our best move of the year so far. We have largely eliminated the fund's short positions given the strength of the U.S. market, particularly the NASDAQ. Currently, our largest positions are in high technology, biotechnology and finance. We no longer hold any shares in the precious metals sector.

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You will find information on the yield of our traditional strategies by following this link:

<http://rivemont.ca/wp-content/uploads/2017/10/Rivemont-Croissance-30-septembre-2017.pdf>

Since the beginning of the year, our return has been similar to that of the benchmark and, over the past 12 months, it stands at 5.7% compared to 6.1% for the index, a difference of less than half a percent.

« We believe that the American market still provides better opportunities than the Canadian market. »

The bond market remains our main preoccupation.



Indeed, the latter seems to have entered a bear market since the beginning of 2015, which coincides with the interruption of the rate cut by central banks. We are obviously underweight in this asset class, but this scenario certainly does not help the performance of our more conservative accounts.

On the equity side, all of our positions are currently on a nice uptrend, including our new purchases: Intact (IFC.to) and ON Semiconductor (ON). ON is in the same sector as Micron Technologies (MU) whose shares we sold earlier this year for a significant gain.

We still believe that the U.S. market currently has more opportunities than the Canadian market. In Canada, only banks and insurance companies are really worthy of interest. In the United States, there are few sectors that are not of interest.

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Les cryptomonnaies

What is a cryptocurrency?

« Using the cryptography technology, the cryptocurrencies represent an efficient and low-cost system. »

If we had to choose a single word to define the nature of a cryptocurrency, it would be "consensus". Basically, a cryptocurrency is only the sum of all transactions in its history. This ledger, which is called the blockchain, must however reach consensus among all users of the network. In fact, all of the participants in the network agree on the totality of the transactions never carried out. A cryptocurrency therefore has no material form. It is only the result of the consensus made possible by this new technology. But what do we mean in concrete terms?

Under the traditional system, this same consensus is held by the world's banking authorities. It is impossible to avoid them for the completion of any transaction or the custody of assets. In exchange for this financial consensus created by the banks, they charge high fees. This is the price to pay for the smooth running of our financial system.

However, cryptocurrencies are revolutionary since they allow people to obtain such a consensus without intermediary. This is why we are really talking about a completely decentralized system. Thanks to cryptographic technologies, cryptocurrencies present a completely public, efficient, fast and very low cost system. In truth, it is a more innovative and effective way of thinking and of making the financial system work. This is a remarkable upheaval that, if fully implemented one day, would render all current intermediaries that maintain the financial system obsolete. Nothing less!

While this blockchain technology was originally designed to reinvent the system of financial transactions with bitcoin, its scope is much broader today. Indeed, many technophiles and geniuses of this world quickly realized that this revolutionary, immutable network shared by all of its participants, could mean the complete overhaul of many industries. For example, this technology could revolutionize our electoral system, preventing fraud and eliminating the need for polling stations. The real estate and insurance markets could also be completely redesigned thanks to smart contracts made through the blockchain. The same goes for the entire sharing economy, to name just a few industries.

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« It is believed that the blockchain technology will revolutionize many industries. »

Each idea or project leads to the birth of a new cryptocurrency. These encrypted currencies are traded on exchange sites for this new class of financial products. Since the beginning of their existence, they have generated absolutely amazing profits. And everything suggests that we are still in the early stages.

Why is it advantageous to invest in the Rivemont Crypto Fund?

The extremely high return potential is without a doubt the main advantage of the Rivemont Crypto Fund. To give you an idea, \$100 invested on Bitcoin on January 1, 2011, would be worth more than \$1.5 million today. In 2017 alone, it grew by more than 300%. Other cryptocurrencies have posted profits of more than 10,000% since January, not to mention the large number of them exceeding 1,000%. In short, right now, no traditional product can compete with such returns.

The Rivemont Crypto Fund is the first active Canadian fund in the cryptocurrency market. So, if it goes without saying that we will have positions in the main cryptocurrencies such as Bitcoin and Ethereum, we will also eventually invest in several alternative emerging currencies (altcoins) relying on strong fundamentals. We will also be able to participate in the Initial Coin Offering (ICO), a procedure similar to Initial Public Offering (IPO) on the stock market.

Beyond the potential benefits, the Rivemont Crypto Fund also represents a unique type of investment, uncorrelated with traditional investments. It is therefore an interesting diversification relative to the uncertainties of the market. Obviously, this type of investment is extremely volatile. This fund is also a simplified way to invest in the emerging and complex cryptocurrency market, while benefiting from the expertise of seasoned analysts in the field.

« The potential for unparalleled returns is without a doubt the principal advantage of the Rivemont Crypto Fund. »

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Who is the Rivemont Crypto Fund for?

The Rivemont Crypto Fund is primarily intended for investors looking for an investment with high yield potential. However, such potential is always accompanied by a significant degree of risk. Risk tolerance is therefore paramount for investors wishing to take advantage of this new product. The latter must be able to withstand short-term volatility in return for significant potential profitability in the medium and long-term.

This fund is also particularly suitable for investors looking for diversification and opportunities not correlated with traditional markets. However, they must have a long investment horizon and not have to liquidate their positions in the fund in the short-term. Cryptocurrencies may represent the opportunity of a generation, similar to the development of the Web in the 1990s. At Rivemont, we believe that we are only in the early stages of the implementation and adoption of this revolutionary technology. We want to provide investors with the returns associated with its development. Do not hesitate to contact us to learn more about the Rivemont Crypto Fund.



« The cryptocurrencies possibly represent the best opportunity in a generation. »

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Market Prospects

Rivemont Investments			
Subject	Question	Recommendation	Comments
Allocation between equities and fixed income securities	Which are most interesting, stocks or bonds?	Underweight in bonds.	We recommend adding alternative investments to portfolios.
Distribution between Canadian, U.S. and international securities	Which securities are most interesting: Canadian, U.S. or international?	Canadian equities, except for financial firms, are relatively not attractive.	The technology and health care sectors are particularly interesting.
Distribution between corporate and government bonds	Which are more interesting, corporate or government bonds?	We recommend corporate bonds and high-yield 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?	American securities remain essential in portfolios.	We expect a decline in the Canadian dollar.

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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 October 19, 2017

1) Symbol: GD

Name: **General Dynamics**

Description: Production of military equipment.

Dividend Yield: 1.6%

Total Return: 37.8%

2) Symbol: ON

Name: **ON Semiconductor**

Description: Production of semiconductor.

Dividend Yield: N/A

Total Return: 13.0%

3) Symbol: CNR

Name: **Canadian National Railway**

Description: Railroads.

Dividend Yield: 1.6%

Total Return: 19.6%

4) Symbol: SLF

Name: **Sun Life Financial**

Description: Insurance.

Dividend Yield: 3.5%

Total Return: 33.9%

5) Symbol: RY

Name: **Royal Bank of Canada**

Description: Financial services.

Dividend Yield: 3.6%

Total Return: 27.3%

6) Symbol: IFC

Name: **Intact Financial**

Description: Insurance.

Dividend Yield: 2.5%

Total Return: 6.6%

7) Symbol: CAE

Name: **CAE**

Description: Flight simulators.

Dividend Yield: 1.7%

Total Return: 12.9%

8) Symbol: WJA

Name: **Westjet**

Description: Airline company.

Dividend Yield: 2.0%

Total Return: 4.0%

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Conclusion

We are very pleased to present to you the new Rivemont Crypto Fund. The growth of any firm today is driven by innovation, and we want to be at the forefront of new breakthroughs. However, please know that Rivemont is not in any way abandoning its more traditional mandates. We remain a private management firm, and that expertise is our priority. The Rivemont Crypto Fund will be managed by a cryptocurrency specialist, and I will remain responsible for other strategies. The best of both worlds for all types of customers.

Sincerely,

Martin Lalonde, MBA, CFA
President

RIVEMONT

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