



Financial Letter
Volume 9 Number 2

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May 1st, 2018

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Introduction

Hello everyone,

An investor you may have heard of by the name of Warren Buffet once said: "Only when the tide goes out do you discover who's been swimming naked." While this picture may elicit a smile, especially if you imagine who these daring swimmers are, the markets started the year off on a swell that took many by surprise. The S&P/TSX Index, which represents the Canadian equity market, lost more than 5% in less than two weeks at the beginning of the year, ending the first quarter of 2018 in a deep slump. The U.S. market and its leading index, the S&P500, showed staggering volatility by plunging more than 10% over the same period.

It is in such times that active management, like the one recommended by Rivemont, is most useful. We quickly sold certain positions when the downward spiral began in order to protect portfolios. At the same time, we made certain that core strategy holdings were some of the most solid ones in terms of profits and dividends. That is how we were able to keep portfolios stable as the markets were down, something few managed to achieve.

On a different note, I would like to welcome Sébastien Fillion as the new National Retail Sales Manager. He will be responsible for distributing the Rivemont Fund across the country. Rivemont is currently registered as a portfolio management firm in Alberta and British Columbia, in addition to Quebec and Ontario. The Crypto and MicroCap Funds needed a little bit of a push with their distribution, and Sébastien has all the experience and knowledge needed to achieve these new goals. He held various exciting positions at Sentry, Desjardins, HollisWealth and CIBC Wood Gundy. He will be working out of the Montréal office.

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I will begin this financial letter by discussing the performance of the private management firm, then provide a specific investment thesis example, and move on to the ETSY stock, our most prized possession over the past few months, which trades on the Nasdaq. We will also provide a brief update on the various funds and finally wrap up, as usual, with our market outlook and our top positions.

Note that the Rivemont Crypto and Rivemont MicroCap Funds have their own updates published on a weekly and quarterly basis, respectively. You can sign up to receive those updates by email at:

Rivemont Crypto Fund: crypto@rivemont.ca

Rivemont MicroCap Fund: microcap@rivemont.ca

Happy reading!

"The underweight position in bonds reduced losses in the first quarter."

Private management performance

As we already saw, our performance is a reflection of two types of exposures, that is, our positioning relative to stocks and bonds. In the first quarter, these two aspects contributed to our higher performance. On the bond side, we continue to be underweight, as only half the capital is deployed.



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The table above shows the yield for XBB.to, which represents the Canadian bond index. A heavy downward trend is fairly easy to see there. It is still our opinion that bonds are currently not a risk-free asset class, contrary to popular belief. Limited support could emerge if the equity market were to collapse, but we believe that until Canada 10-year bonds start offering at least 3% interest, the risk will be more downward than upward in the medium term. For the invested portion, we use mainly 5-10-year corporate bonds, which offer a more appealing yield closer to 3.5%.

"At the first sign of turbulence, we quickly raised the level of liquidities in the portfolios."

However, our top expertise lies primarily in stocks. At the first sign of turbulence, we quickly increased the liquid portion of portfolios. We sold Canadian National (CNR.to), Brookfield Asset Management (BAM.A.to) and Philips 66 (PSX), and added a small position in emerging markets. We positioned ourselves very conservatively. Our "dry powder" provision remains available for any opportunities that may arise, which will come if we are patient.

You probably know that some advisors, especially in big banks, have more of a laissez-faire policy. Portfolios are fully invested at all times, regardless of the climate. However, there is evidence that long-term portfolio performance is directly related to the portfolio's capacity to minimize losses during bear markets. Hold on, though, I am not saying that the bull market of recent years is ending—there has been no confirmation of that yet—but we will know what to do when it starts looking that way.

Investment thesis: ETSY

I did not mention this in the previous paragraph, but our strong performance in the first quarter is owed largely to the yield from a single holding: ETSY. But, how can this stock little-known north of the 49th parallel be the star of the show? With a yield of more than 50% since December, this stock deserves our telling you a little story.



« According to Peter Lynch, it is essential to have a good understanding of the businesses you invest in. »

Peter Lynch is one of the all-time greatest portfolio managers. The Fidelity Magellan Fund he took over in 1977, with \$20 million under management, became the largest mutual fund in the world, outperforming the market by more than 10% annually. According to him, the main thing is to have a good understanding of the business in which you are investing. He always started his search with his hands, finger and eyes, at the grocery store, and his friends spawned his best investment ideas. In other words, his strokes of genius came to him in everyday life; he had his ears to the ground for anything new and interesting.

That is sort of what happened to me with ETSY, this online craft store. My daughter was making "slime." For those of you who are not familiar with it, it is a type of modelling putty in a range of colours and textures that is very popular with preteens right now.



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One day, my daughter asked me if she too could sell “slime” on the Internet, since she was making industrial quantities of it. Encouraging a budding entrepreneurial mind, I said: “Yes, but where are you going to sell it?” All witty, she answered: “Well, on Etsy obviously!”

So, we opened an account together, and I discovered an extremely user-friendly website with amazingly easy online payment systems. Although my daughter did not reach her goals (it is not easy to sell something for \$3 that costs \$11 to ship), I discovered a potential investment for my clients.

After a little more serious additional research, we set up price alerts that started sounding in early December. The moral of the story is, keep your ears and mind open because you never know what can quickly turn into a new investment idea.

Rivemont MicroCap Fund

First of all, we are proud to announce that we have opened more than 50 new client accounts and have collected over \$3.4 million in assets for the MicroCap Fund. We extend a warm welcome to all our new clients and hope that this will be the beginning of a long, prosperous relationship.

As for the investment strategy, it consists in investing in little-known and, to a very large extent, non-liquid micro-capitalization companies. In many cases, building our positions takes time and patience. We are particularly pleased with the current composition of our portfolio, which has a handful of high-quality, extremely promising stocks. Although the cash balance is more than 50% of the portfolio, our capital is being deployed as planned so far. We are striving to strike the right balance between a rapid investment of cash and the need to exercise caution and expediency based on our strict core criteria and market conditions.

From a fundamental standpoint, there are many good investment outlooks in our universe. Since recent months have not been particularly kind to microcaps as a whole, many stocks are now trading at values that we feel are quite attractive. We are confident in our ability to target companies that offer the most attractive yield prospects and to invest in them while minimizing downward risk.

“The capital of the Rivemont MicroCap Fund is being deployed as plan.”

Rivemont Crypto Fund

“The Rivemont Crypto Fund was the very first Canadian fund offering more than one cryptocurrency.”

You do not become the very first fund in Canada to offer multiple cryptocurrencies by simply yelling “bitcoin”! The first quarter of 2018, after the official launch of the Rivemont Crypto Fund in December 2017, was fraught with hurdles and domestic firsts on the emerging cryptocurrency market. Since this type of alternative financial product has little to do with the various existing institutional products, regulatory requirements are not only plentiful, but are sometimes yet to be defined. Market players allowing exchanges, currently barely able to meet individuals’ needs, were and still are ill-adapted to the much more hermetic and transparent structure of institutional operations.

Our approach was therefore two-fold. First, we worked closely with provincial regulatory authorities, including the Autorité des marchés financiers (AMF) and the Ontario Securities Commission (OSC), in order to integrate the regulatory framework and obtain approvals for subsequent transactions. We are also very proud to be the very first fund in Canada to have been granted approval by authorities to offer a fund consisting of more than one cryptocurrency.

At the same time, we tirelessly sought out the best possible partners so that we could offer our investors a truly innovative product. The purpose of Rivemont has always been to build a diversified portfolio using an active strategy. The broader the range of available cryptocurrencies, the better our chances. Today, we can transact in bitcoin, bitcoin cash, ethereum, litecoin, ripple and ethereum classic, which means that the Rivemont Crypto Fund has, by far, the largest possible selection of cryptocurrencies in the country!

“With its active approach, the Rivemont Crypto Fund was able to outperform the price of the Bitcoin by 20% in the first quarter.”

In the first quarter, we had to deal with as sharp a correction as the previous surge in cryptocurrencies, with the price of bitcoin in particular losing more than 65% of the value posted in December 2017. So, we took a defensive position, trying to limit our investors’ exposure pending a reversal. This approach was a success, so much so that we now have a 20% advance on the bitcoin index price. We were ready to shift into high gear as soon as the market gave us a sign of another up-cycle, which came on April 12. Today, the worst of the crisis appears to genuinely be behind us. We believe that this correction was healthy and even necessary to allow for future growth and are happy to find ourselves in the forefront of the Canadian cryptocurrency institutional market so that our investors can profit from the next up-cycle.



The second quarter has historically been particularly favourable to cryptocurrencies. We are confident that this year will be no exception.

Rivemont Absolute Return Fund

There is not much to report here. In the first quarter, the Fund saw a loss in line with the S&P/TSX. However, we have begun taking short positions to take advantage of the new volatility. More to come.

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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 are starting to look more attractive.	We are keeping a close eye on a potential resurgence of the resource sector.
Distribution between corporate and government bonds	Which are more interesting, corporate or government bonds?	Government bonds have little attraction.	We recommend corporate bonds with short and medium-term maturities.
Investments in Canadian dollars or in foreign currency	Do investments in other currencies increase or decrease the total yield?	U.S. assets are still just as essential to portfolios.	We do not anticipate any sharp movement in currencies.



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 April 27, 2018

1) Symbol: ETSY

Name: **Etsy**

Description: Online retail website.

Dividend Yield: N/A

Total Return: 63.1%

2) Symbol: GD

Name: **General Dynamics**

Description: Production of military equipment.

Dividend Yield: 1.8%

Total Return: 39.8%

3) Symbol: PXT

Name: **Parex Resources**

Description: Crude oil exploration and production.

Dividend Yield: N/A

Total Return: 6.0%

4) Symbol: CAE

Name: **CAE**

Description: Flight simulators.

Dividend Yield: 1.5%

Total Return: 26.5%

5) Symbol: SLF

Name: **Sun Life Financial**

Description: Insurance and financial services.

Dividend Yield: 3.4%

Total Return: 29.1%

6) Symbol: TDOC

Name: **Teladoc**

Description: Health care via mobile devices.

Dividend Yield: N/A

Total Return: 0.5%

7) Symbol: T

Name: **Telus**

Description: Telecommunications.

Dividend Yield: 4.4%

Total Return: 5.3%

8) Symbol: IFC

Name: **Intact Financial**

Description: Casualty insurance.

Dividend Yield: 2.9%

Total Return: 3.3%

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Conclusion

The first quarter of 2018 saw a lot of action. We continue to provide a solid structure and quite an extraordinary product offering. With now \$45 million under management, we are well positioned to enjoy another period of strong growth.

Sincerely,

Martin Lalonde, MBA, CFA
President

RIVEMONT

The information presented is dated March 31, 2017, unless otherwise specified, and is for information purposes only. The information comes from sources that we deem reliable, but its accuracy is not guaranteed. This is not financial, legal or tax advice. Rivemont Investments is not responsible for errors or omissions with respect to this information or for any loss or damage suffered as a result of reading it.

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