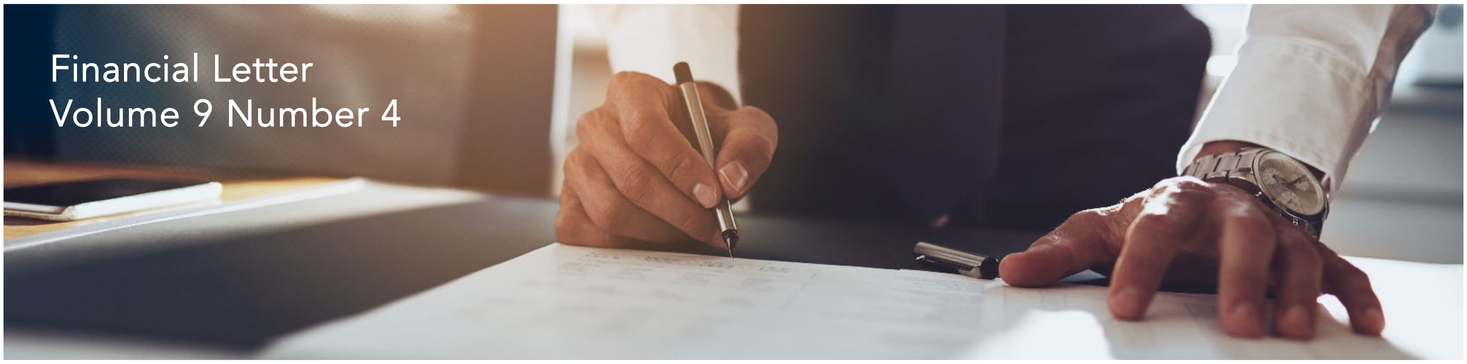

Financial Letter
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IN THIS ISSUE

Introduction

Hello everyone,

It's amazing to see how quickly financial markets can change direction. But that's what gives them their appeal, in my opinion. As many of you already know, I began trading in March 2000, which was arguably the worst timing in my generation for trying to make money on the major stock markets. The Nasdaq topped 5,000 points that month, at the very moment I decided to take the plunge. And 15 years went by before it returned to that high. In the interim, the Nasdaq dropped twice, by nearly 1,000 points in 2002 and again in 2009. But I strongly believe that, as an investor, you have to know how to lose before you can win. And that's precisely why I believe that active management, as advocated by Rivemont, can help optimize returns in all types of markets, especially by reducing portfolio exposure during tougher times, which more traditional institutions avoid doing for reasons that are hard to explain.

But before going into greater detail about the difficult start to October on the markets, it's important to focus on what turned out to be a very strong third quarter and beginning of the year for investors at Rivemont. Since January, we were able to exceed the benchmarks by a strong margin, despite a rather difficult equity and bond market. We carefully selected stocks that earned very strong returns and we remained underweighted in bonds, which turned out to be a winning strategy. In addition, the Rivemont Absolute Return Fund helped drive this success in the third quarter, with a gain of more than 4% in September alone.

In this communication, I will get back to our third quarter returns by presenting a few of the transactions that were made. I will then continue by explaining our specific trend following approach, particularly in bear

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markets. Finally, as usual, we'll wrap up with our market outlook and an outline of our most important positions.

Happy reading!

Third Quarter

Traditional Strategies

"U.S. holdings have contributed to a good performance this year."

All of the measures implemented since the beginning of the year continued to move forward in the third quarter. Below are details of the performance of our moderate growth strategy, one of our more conservative approaches.

https://rivemont.ca/wp-content/uploads/2018/10/Rivemont-Moderate-Growth-2018-09-30.pdf

In the last 12 months, this strategy earned 10.4%, or more than 6% ahead of the benchmark. Since it was introduced almost 10 years ago, it has had an annualized return of more than 7% despite an average equity exposure of some 50% only.

The past year was especially profitable for U.S. holdings, with two of our stock picks accounting for a substantial portion of our gains, i.e. ETSY and TDOC. We proceeded with the sale of these equities in early amzn
$44, and the closing price on October 12 was $41.55. The selling price for TDOC was approximately $71, and the stock price was $65.94, on October 12 as well. The purchase price of these stocks was around $18 and $42, respectively.

"Interest rates continued to rise in the third quarter."

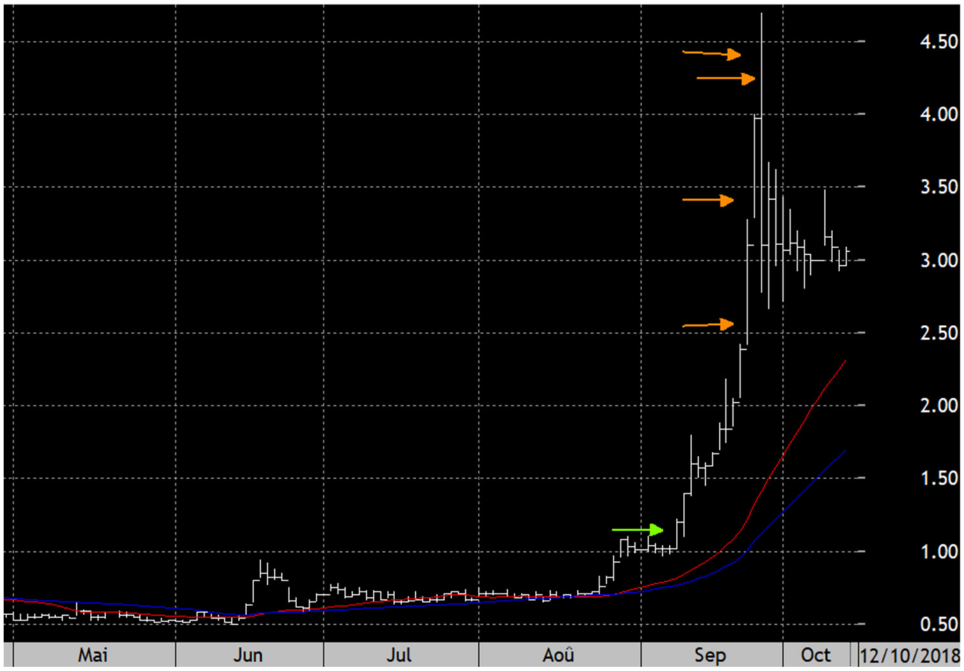
What impacted the markets especially in the last quarter was the continued overall rise in interest rates.

"Our underweight positioning in bonds has paid off for our clients."

The above chart, issued by the Bank of Canada on October 12, illustrates the change in yield to maturity of a two-year bond. A rather impressive rise of approximately 25% has occurred in the past three months. As bonds and interest rates move in opposite directions, the Canadian bond market continued the decline begun in 2016. Our underweighting in this sector could not have been more profitable for our investors. However, because of this rise in rates, we plan on purchasing short-term government bonds instead of maintaining higher cash balances, as is presently the case.

Rivemont Absolute Return Fund

Our speculative fund had a strong September because of our particular exposure to one sector that has been in the news a lot lately: cannabis. As you undoubtedly are aware, we consider ourselves to be free thinkers when selecting the sectors in which we invest. If one specific sector shows unusual strength, then we'll try to uncover the best opportunities without losing sight of how risk and profit are intertwined. Our research spotlighted a small company in the Toronto area that focuses on medical cannabis production.



Owing to sector volatility, we acquired a relatively small position that turned out to be particularly profitable. Do we regret having shown restraint? Absolutely. But our business is fraught with "I should have."
We therefore purchased the stock initially when it was at its new annual high (breakout) of $1.17, and then sold it on four occasions at the prices indicated by orange arrows in the chart, with the last sale at a price of $4.42. For technical analysis enthusiasts, this is a perfect example of a so-called "parabolic" rise, the most powerful and stimulating that exists.

Rivemont MicroCap Fund

- $4.67 million in assets under management, up $0.64 million over the course of the quarter.
- 90% invested and 10% cash position.
- 21 portfolio positions, the largest accounting for 10.5% of assets.
- Unit value of $5.32*, for a total return of 7.1% (Class B) for the second quarter.

After a strong second quarter, the North American microcap market slowed in the third quarter. Luckily, some of our portfolio holdings performed very strongly, which enabled us to end the quarter with a 7.1% return. To measure our performance for the period from July 1 to

"The Rivemont MicroCap Fund has outperformed its indices in the third quarter."

September 30, 2018, we chose the S&P/TSX Small Cap Index as our benchmark. To obtain an overview of U.S. market performance, we used the LD Micro Index as our benchmark. Performance of the two indexes was as follows:

- S&P/TSX Small Cap Index: -3.4%
- LD Micro Index: -0.2%

Our portfolio therefore outperformed the benchmarks during the second quarter. Since we generally invest in smaller companies with very little liquidity in comparison to the companies composing the benchmarks, we inevitably expect our performance to deviate from the benchmarks.

One of the basic principles that defines the Rivemont MicroCap Fund investment strategy is that we strive to know the companies we invest in better than anyone else. Our research process therefore includes discussions with the management team, office visits, testing goods and services, and discussions with investors, industry experts, clients and/or suppliers.

In late July, Philippe and Mathieu, both consultants for the Rivemont MicroCap Fund, boarded a plane bound for Alberta to visit companies in the Edmonton and Calgary areas. This is the type of due diligence activity they both adore, as it gives them a substantial advantage: few investors are prepared to cross the country to learn more about small companies that are still relatively unknown. All in all, they were able to visit 10 companies during the one-week trip. They came back with a wealth of notes and information making it possible for them to recommend a few excellent investment ideas to the fund portfolio managers.

"Always a good idea to meet management."

Our consultants also uncovered a private placement opportunity we would have probably missed had it not been for their trip to the company's premises. Luckily, we had enough time to analyze the idea and take a position in the private placement. As at September 30, the value of the shares acquired in this placement had risen 30% since our purchase, illustrating the added value of these business trips.

Corrections and Bear Markets

The first two weeks of October were particularly difficult on North American markets. The U.S. flagship index lost more than 5%, the U.S. small cap index nearly 9%, and the Toronto stock market index about 4%.

The question on everyone's lips is obviously the following: Is this the start of a bear market or just a slight, albeit formidable, correction as has been the case so many times in the past nine years? First of all, the bull market has not ended technically. We'll therefore need to take a closer look.

I liked the analysis of this question by Howard Marks, founder of Oaktree Capital Management ($120 billion under management). In his view (and he mentions it in his book *Mastering the Market Cycle*), it is crucial that where we are in the financial cycle be determined in order to properly measure exposure to risk. At the present time, we believe we are closer to the end than to the beginning of the cycle. Even still, that doesn't mean more outstanding investment opportunities won't come up. It means that the portfolio needs to be positioned accordingly. We took profits on some of our more volatile positions and our cash holdings are particularly high, perhaps even too high at this juncture. In any case, we are doubly well positioned at the moment to jump on possible opportunities. If a bullish market starts up again, we will have the capital we need to use it in certain stocks that, in our opinion, have suffered an overly sharp correction. And should, unfortunately, the turmoil continues, our investors will be protected by underexposure to the market, and capital will be available to take advantage of companies that are in turn undervalued.

It is important to remember, though, that the beauty and efficacy of active management are predicated on the ability to adjust our exposure to risk when it rises, and vice versa. Unlike many managers, we prefer to avoid significant losses for our investors by positioning ourselves accordingly during tougher periods, while also favouring the Rivemont Absolute Return Fund to take advantage of this type of market.

"Warren Buffet currently has approximately 25% of its capital in cash."

In conclusion to this topic, I'm seeing many financial industry experts on social networks making declarations such as the following (real examples): "Stay in the stock market, no matter what happens" or "Staying invested despite market fluctuations can be more advantageous than trying to time the market."

Remember that real investment pros forged a place for themselves by selling high and buying low, precisely by using market timing. At the moment, the great Warren Buffet's investment vehicle has more than $120 billion in available cash out of a total capitalization of $500 billion, or close to 25%! In our view, we need to be prepared to make tough decisions to optimize our clients' returns. Simply waiting with our arms crossed is not a viable scenario.

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 and stocks.	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 materials sector.
Distribution between corporate and government bonds	Which are more interesting, corporate or government bonds?	Long-term government bonds have little attraction.	We recommend bonds with short-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 October 26, 2018

1) Symbol: MDT
Name: **Medtronic**
Description: Medical technologies.
Dividend Yield: 2.2%
Total Return: -2.8%

2) Symbol: CAE
Name: **CAE**
Description: Flight simulators.
Dividend Yield: 1.6%
Total Return: 21.2%

3) Symbol: T
Name: **Telus**
Description: Telecommunications.
Dividend Yield: 4.7%
Total Return: 6.5%

4) Symbol: IFC
Name: **Intact Financial**
Description: Casualty insurance.
Dividend Yield: 2.8%
Total Return: 7.8%

5) Symbol: SLF
Name: **Sun Life Financial**
Description: Insurance and financial services.
Dividend Yield: 4.0%
Total Return: 19.9%

6) Symbol: RY
Name: **Royal Bank**
Description: Financial services.
Dividend Yield: 4.2%
Total Return: 19.8%

Conclusion

This fall is shaping up to be action-packed, and we will continue to be on the lookout to ensure that our clients' portfolios are positioned properly. Our portfolios' returns have been extremely attractive since the beginning of the year, and we will do everything within our power to maintain our lead on the benchmarks. The value of our newsletter is measured by our net return, and we firmly intend to remain first in class.

Sincerely,

Martin Lalonde, MBA, CFA
President

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