April 20, 2020

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Introduction

Hello everyone,

I have expressed this point of view repeatedly in this newsletter, but it is once again relevant: the most difficult bear markets are the ones that let us truly judge the quality of an asset manager. In our opinion, most investors feel that capital protection in a time of crisis is just as important as capital growth when everything is going well. And this time around, no one can claim to have been caught off guard. North American markets were the last to react to the situation caused by the coronavirus, and the irresponsible Donald Trump quickly demonstrated his inability to act sensibly to protect his citizens and the U.S. economy in the longer term. The U.S. leader's delayed and inadequate response to the current pandemic will have serious and long-term consequences. And Canadians, for obvious reasons of proximity, will also be severely affected.

However, it's not all dark skies ahead, even if many of you will find this especially hard to perceive when the crisis reaches its peak. We must never forget that the Roaring Twenties followed the Spanish flu of 1918-1919, and that those years produced the greatest artistic, social and cultural undertakings since the Renaissance. Not to mention, of course, one of the hottest bull markets in history.

However, before planning for the aftermath of the crisis, we first have to get through it. And to be able to profit from opportunities that arise, one must have cash. And to have cash, you need to sell assets, as early as possible, of course. In the first part of this newsletter, I will go over our first-

quarter investment decisions and identify the types of securities that we prefer. We will then discuss recommended approaches for managing your portfolio, explaining in particular why holding mutual funds without reacting to events is possibly the most costly long-term approach for an investor, and why it is sometimes essential to add an alternative fund. We will then briefly discuss the business continuity plan that we have implemented. Finally, as usual, we will wrap up with our market outlook and an outline of our most important positions.

Enjoy!

1st quarter of 2020

"Rivemont's active management delivered the goods during the first quarter."

The market reached its peak on February 19, well after the now infamous coronavirus began spreading around the world. What we could not have foreseen, however, was how slow the authorities in Western countries would react. For our part, we quickly sold a number of shares during the first downturn that ended on February 28, along with a portion of our high-yield bonds. We sold some more a little later in March to trim the portfolio.

Obviously, we still hold those shares that appear the soundest, both from a technical and financial perspective. In an article published in the *Journal de Québec* (see link below), we identify the types of stocks to favour:

https://www.journaldequebec.com/2020/03/12/rester-chez-soi-fait-surfer-des-entreprises

Fortunately for our investors, our two largest positions were also the top performers in the quarter: Docusign, which makes the remote signing of contracts possible (an obvious need during this pandemic) and XGD, an Exchange-Traded Fund which invests in Canada's largest gold production companies. Gold, which has enjoyed a sharp increase since the start of the year, is a perfect counterweight to the tax and financial measures implemented by countries around the world.

The Rivemont Alpha Fund, which replaces the Rivemont Absolute Return Fund, has met expectations. With a return of 9% in March and 14% year-

to-date, it benefited its unit holders by taking advantage of the downturn in certain industries, including coal and oil.

https://rivemont.ca/wp-content/uploads/2020/04/Rivemont-Alpha-Fund-2020-03-31-1.pdf

Active or passive management?

During the crisis, several players from the financial world took to social media and various platforms to strongly urge investors not to panic, not to sell anything and, above all, not to change the weighting of their assets, obviously fearing that emotion would drive bad decisions. These players, typically economists or representatives of banks or insurance companies, are not entirely wrong. The fact is that equity weightings should have been reduced at the start of this crisis and not after a decline of 25% or 30%.

"At the beginning of the crisis, we reduced our allocation to stocks."

However, a little more thinking here shows that this position is not without a certain hypocrisy. Indeed, if we as managers do not react in times of crisis, we might as well say that we never react. This is called passive management, which is not a bad approach in itself. Although I am not a fan of this type of management, there are wonderful and inexpensive products –Exchange-Traded Funds (ETFs) – that offer a passive management approach with low fees. So if you as an investor are comfortable with never touching or changing your portfolio, an ETF is the ideal option because of its low fees. Moreover, since these products invest in a large number of stocks, they offer quick and efficient diversification.

At Rivemont, we believe that investors who want to maximize potential returns should opt for active management and a concentrated portfolio of holdings that differ from those of the benchmark. In 2006, Cremers and Petajisto from the Yale School of Management introduced the concept of "Active Share," a new method for determining the extent of active management in a portfolio. They examined the performance of 2,650 mutual funds from 1980 to 2003 and concluded that Active Share significantly predicts fund performance. Funds with an Active Share exceeding 80% outperformed the indexes by about 2.5% before fees and 1.5% after fees.

Unfortunately for Canadian investors, most large funds distributed by banks and insurance companies have a tiny Active Share. This obviously results in underperformance compared to a benchmark, even before taking into account often-exorbitant management fees.

"The vast majority of the mutual funds have a tiny Active Share."

Thus, the advocates of passive management, who encourage investors to stay the course, distribute funds with very high fees and low returns.

There are three types of investors on the market:

1. Potential winners who choose active management through a significant Active Share in their portfolio and who place a high value on performance.

2. Potential winners who use Exchange-Traded Funds and for whom diversification and minimal fees are important considerations.

3. Potential losers who are sold mutual funds distributed by Canadian banks and insurance companies and for whom fees and performance are not important.

It is up to you to pick your side!

Business Continuity Plan

In recent weeks, we reviewed and tested our business continuity plan, and implemented parts of it. In addition to the recommendations issued by public security authorities, we also decided to eliminate physical contacts between the Gatineau and Montreal offices.

Moreover, each team member is in isolation and can access all internal systems required to continue operations.

We look forward to seeing all of you in person soon. Take care of yourself!

Market Prospects

Rivemont Investments			
Subject	**Question**	**Recommendation**	**Comments**
Allocation between equities and fixed income securities	Which are most interesting, stocks or bonds?	Still 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?	U.S. equities still lead the pack.	Gold is certainly trending higher.
Distribution between corporate and government bonds	Which are more interesting, corporate or government bonds?	Long-term government bonds are not very attractive.	We recommend the most defensive products and cash.
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 our portfolios.	We do not anticipate any abrupt currency moves.

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 15, 2020

1) Symbol: XGD
Name: **iShares S&P/TSX Gold ETF**
Description: Canadian gold producers.
Dividend Yield: 0.4%
Total Return: 36.2%

2) Symbol: DOCU
Name: **DocuSign**
Description: Electronic signature software.
Dividend Yield: 0.0%
Total Return: 79.6%

3) Symbol: AMZN
Name: **Amazon**
Description: Online retailer.
Dividend Yield: 0.0%
Total Return: 12.3%

4) Symbol: IFC
Name: **Intact Financial**
Description: Casualty insurance.
Dividend Yield: 2.3%
Total Return: 47.2%

5) Symbol: GOOGL
Name: **Alphabet**
Description: Search engine.
Dividend Yield: 0.0%
Total Return: -1.9%

6) Symbol: RY
Name: **Royal Bank**
Description: Financial services.
Dividend Yield: 5.4%
Total Return: 8.2%

Conclusion

You may recall that we concluded the last newsletter by saying that we would be prepared to react if the music stopped. Well, we were. We are currently working to find the most beautiful diamonds in this ocean of not-so-precious stones in order to keep outperforming the markets as we have done since our founding.

Please do not hesitate to contact us with any questions regarding your investments and positioning. Accessibility and transparency remain among our most important values.

Sincerely,

Martin Lalonde, MBA, CFA
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