



## Financial Letter Volume 12 Number 1



February 1<sup>st</sup>, 2021

### Introduction

Hello everyone,

First off, I want to take this opportunity to thank all the front-line workers who dedicate themselves, day after day, night after night, to caring for the most vulnerable in our society. I would also like to send a message of support to all those who have seen their dreams, passions and life plans demolished as a result of this unprecedented crisis. Entrepreneurs are the pillars of our communities and the current situation is simply unsustainable for many of them. I tip my hat to all who are showing extraordinary resilience.

It was important for me to start the letter this way because we at Rivemont were among the privileged, the most fortunate, in 2020. Indeed, against all expectations, stock markets ignored the pandemic and gave us perfectly respectable returns. If someone had told me early last year that North American markets would wind up in positive territory despite this nightmarish pandemic with its confinements and many restrictions, I would never have believed it.

However, and this is the real beauty of stock markets, it is very difficult to predict what direction they will take in the short to medium term. But it is still possible to react to them and position one's portfolio to take advantage of arising opportunities. That is what we did in 2020.

Those of you who follow our activities closely know that we had an exceptional year in terms of performance. Here is an overview:

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“Equity” strategy, gross return:	21%
Rivemont Alpha Fund, net return:	36%
Rivemont MicroCap Fund, net return:	52%
Rivemont Crypto Fund, net return:	187%

This financial letter will therefore focus primarily on a review of our investment decisions and our forecasts for 2021. Then, as usual, we will present our market outlook and our largest positions.

Enjoy!



*“A year in three periods.”*

## The Equities

Our year was divided into three distinct periods: the crisis and the steep decline at the beginning of the year; the rebound led by industries helped by the lockdown and the fight against COVID-19, and the euphoria that began at the end of last year, caused by the massive injection of liquidity by central banks.

As is our nature, and because we favour active management, we reacted quickly in the first quarter to protect the portfolios by liquidating several risky positions. This proved very positive for the portfolios during the period.

Our one mistake was to sell certain bonds whose value was falling abnormally, as shown in the chart below.



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In fact, there was an extremely strong rebound after the U.S. Federal Reserve announced it would purchase corporate bonds directly on the market. We reinstated our positions at that point, but the damage was done.

After selling our stocks, we were slow returning to a fully invested portfolio in order to avoid another bear market. Protecting our investors' capital is always our chief concern.

We then invested the available capital in two industries directly related to the pandemic: online sales and biotechnology. Amazon and the iShares Trust Nasdaq Biotechnology ETF, which includes companies that develop vaccines, were added to our portfolios. Here are this fund's top holdings, their market capitalization and their weighting in the index.

*"DocuSign and  
Lightspeed favored by  
the lockdown."*

AMGN	AMGEN INC	\$857,978,305.98	7.89
GILD	GILEAD SCIENCES INC	\$673,842,436.80	6.19
VRTX	VERTEX PHARMACEUTICALS INC	\$506,538,421.72	4.66
REGN	REGENERON PHARMACEUTICALS INC	\$467,829,656.73	4.3
ILMN	ILLUMINA INC	\$454,062,797.28	4.17
MRNA	MODERNA INC	\$442,203,026.88	4.07
BIIB	BIOGEN INC	\$372,192,886.65	3.42
ALXN	ALEXION PHARMACEUTICALS INC	\$295,827,102.35	2.72
SGEN	SEAGEN INC	\$273,618,111.96	2.52

However, 2020 would not have been as profitable without the contributions of two companies in particular: DocuSign and Lightspeed. The first, the industry leader in electronic signatures, whose stock we purchased in 2019, was naturally helped by the imposition of lockdowns. The result was an investment that grew almost fourfold. The second is a Montreal company that offers e-commerce platforms, a Shopify 2.0, in other words. Let's wish it the same success as the original.

As I said earlier, we have the impression that stock markets are in a period of euphoria. A correction is entirely possible and even desirable. It would be yet again an opportunity to profit from the usual rotation of industries to position our portfolios for the next cycle. The wheel never stops turning...

## Rivemont Crypto Fund

This is our most volatile and risky strategy, but it possibly holds the greatest potential. We don't systematically include the Rivemont Crypto Fund in our private wealth portfolios because of the unusual characteristics of this asset class. Please feel free to contact us if you would like to learn more about this strategy or dip your toes into it.

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If you have not already done so, I invite you to read the article on cryptocurrencies that I wrote for Le Droit Affaires in order to demystify this new area of global finance.

<https://www.ledroit.com/magazine-affaires/les-cryptomonnaies-195c37fdf2063b8207b35d8f26fd31cd>

*"The cryptocurrencies, an asset class to follow!"*

## Rivemont MicroCap Fund

I would first like to welcome Mathieu Martin and Philippe Lapointe, who are joining Rivemont to manage the Rivemont MicroCap Fund. The team is growing and becoming stronger.

2020 proved to be an extraordinary year for the microcap sector in Canada. While large cap companies were hitting peaks and their valuations were high by historical standards, there were still many bargains among microcap companies at midyear. We saw a significant influx of institutional capital into this sector in the second half of the year, which drove many of our stocks up. This phenomenon was reflected in the fund's annual performance.

Here are a few figures for the fund as at December 31, 2020:

- \$12.3 million in net assets under management
- 95% invested and 5% in cash
- 32 positions in the portfolio, the largest representing 13.5% of assets.
- the top five positions accounted for 37% of the portfolio.
- unit value of \$9.51\*, for a return of +25.4%\*\* for the quarter
- +52.7%\*\* return for 2020

\* Series B units (MAJ724)

\*\* Return net of all fees

The table below presents the total return (including dividends) of the major North American indices for 2020:

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<b>Rendements 2020</b>	
<b>Petites et micros capitalisations - Canada</b>	
Composite TSX Venture	51,6%
Titres à petite capitalisation S&P/TSX	12,9%
<b>Petites et micros capitalisations - États-Unis</b>	
LD Micro	35,8%
Russell MicroCap	21,0%
<b>Grandes capitalisations - Canada</b>	
Composite S&P/TSX	5,6%
<b>Grandes capitalisations - États-Unis</b>	
S&P 500	18,4%
Dow Jones	9,7%
Composite Nasdaq	44,9%
<b>Fonds Rivemont MicroCap</b>	<b>52,7%</b>

2020 was absolutely outstanding for the Rivemont MicroCap Fund, which outperformed all the main indices. Moreover, the fund navigated its second period of high volatility (the first occurring in December 2018) and once again demonstrated its resilience and ability to bounce back.

Of course, we should not expect to see such returns every year. However, we believe that, with our rigorous and proven investment process, we can continue to do well against the benchmarks through good times and bad (yes, there will be bad times one of these days, unfortunately).

*"Xebec, a famous 10-bagger."*

Let me conclude this letter by noting an important highlight for the fund this year. In 2020, it obtained its first "10-bagger," meaning a security whose initial value has grown by ten times or more. The stock in question was Xebec Adsorption (TSX: XBC), a Quebec company that we first bought in 2018 at 70 cents a share. In 2020, the stock closed at \$9 a share, which is equivalent to a return of 1,186% on the initial shares purchased. Xebec is a global provider of gas generation, purification and filtration solutions for the industrial, energy and renewable energy sectors. The company is well established in the energy transition field through patented technologies that transform biogas into clean renewable energy sources. It has more than 1,500 customers, including small businesses, multinationals, municipalities and government agencies seeking to reduce their carbon footprint. Headquartered in Montreal, Quebec, Xebec has several sales and support offices in North America and Europe, as well as two manufacturing plants; one in Montreal and one in Shanghai.

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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?	Still 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 not attractive	Euphoria on the markets. Do not hesitate to take some profits.
Distribution between corporate and government bonds	Which are more interesting, corporate or government bonds?	We recommend corporate and high yield bonds.	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 movements.

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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 January 26, 2021

1) Symbol: LSPD

Name: **Lightspeed**

Description: Online retailer.

Dividend Yield: 0.0%

Total Return: 64.5%

2) Symbol: AQN

Name: **Algonquin Power & Utilities**

Description: Renewable energy.

Dividend Yield: 3.5%

Total Return: 10.6%

3) Symbol: IFC

Name: **Intact Financial**

Description: Casualty insurance.

Dividend Yield: 2.3%

Total Return: 55.7%

4) Symbol: LUN

Name: **Lundin Mining**

Description: Basic materials.

Dividend Yield: 1.3%

Total Return: 8.0%

5) Symbol: ON

Name: **ON Semiconductor**

Description: Semi-conductor manufacturer.

Dividend Yield: 0.0%

Total Return: 28.6%

6) Symbol: AMZN

Name: **Amazon**

Description: Online retailer.

Dividend Yield: 0.0%

Total Return: 61.7%

7) Symbol: RY

Name: **Royal Bank**

Description: Financial services.

Dividend Yield: 4.1%

Total Return: 47.4%

8) Symbol: AQUA

Name: **Evoqua Water**

Description: Water treatment.

Dividend Yield: 0.0%

Total Return: 6.1%

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## Conclusion

Despite the pandemic, 2020 was a very special year for us since all our strategies beat their benchmarks, often by a significant margin. Our assets under management grew by about 50% to exceed \$75 million. I want to take this opportunity to again thank all our clients for the confidence they show in us. Without you, we couldn't be where we are, and we are fully aware of that.

Sincerely,

Martin Lalonde, MBA, CFA  
President

# RIVEMONT

The information presented is dated December 31, 2020 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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