



Financial Letter
Volume 12 Number 2



April 23, 2021

Introduction

Hello everyone,

We all miss each other.

Portfolio management consists of three distinct activities: making investment decisions, ensuring compliance and governance, and building relationships with clients, not necessarily in that order. As you know, we've implemented an array of new technologies to support these activities and maintain the connection between the firm and its clients. However, after nearly 12 years, our investors have also become our friends, people we talk to about our children's graduation, our business achievements, or simply about the weather. And I can assure you that we look forward to seeing you again in the flesh and shaking your hand after this horrible pandemic. I can't count the number of times I've heard this in a conversation: "Let's go for a beer or coffee when this is over." We're definitely ready to greatly increase our intake of caffeine (or other liquid, where appropriate) to make up for lost time.

Fortunately, the vaccination process is going well as of this writing and, despite a worrying rise in infections, we're finally starting to see the light at the end of the tunnel. The Israeli example clearly shows that when most of the population is vaccinated, life can return close to normal.

Strangely, while social activities have been put on ice these past 12 months, stock markets turned resolutely bullish, driven by massive central bank support. Thanks to its multiple strategies, Rivemont definitely took advantage of the situation. Here's an ad we produced for various traditional and electronic media. As the saying goes in finance, you're only as good as your last performance. Clearly, we managed to play our cards right.

IN THIS ISSUE

1. Introduction
2. The Equities
3. Rivemont
MicroCap Fund
4. Rivemont Crypto
Fund
5. Highs and Lows of
the Stars of
Finance
6. Market Prospects
7. Favorite Securities
8. Conclusion

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Performance as at March 31, 2021. All fund returns are presented net of fees, Class A for MicroCap (launched on January 18, 2018) and Class F for Alpha (launched on January 1, 2020) and Crypto (launched on December 14, 2017). *The returns of the "Equity" strategy are based on the composite of all shares held by Rivemont's private wealth clients under the representative code Q2F2 and are gross of fees, beginning September 1, 2010. Rivemont was appointed as investment advisor to the Rivemont Alpha, MicroCap and Crypto funds. Majestic Asset Management acts as manager and is responsible for the day-to-day operations of these funds, while Rivemont is responsible for managing the mutual funds portfolio. The funds may be used to build client portfolios where, in the opinion of the advisor or manager, such investment strategies are appropriate to the client. Units of the Rivemont Alpha, MicroCap and Crypto funds are available under exemptions to prospectus requirements pursuant to Regulation 45-106 respecting prospectus and registration exemptions, and are therefore offered only to qualified investors. Future results will differ from past performance and the value of fund units may fluctuate significantly. This document does not constitute a recommendation or advice related to an investment and is presented for information purposes only.

We'll begin this newsletter with an overview of our strategies for the quarter and then reprint a short article from *Le Droit – Affaires* entitled "Splendeurs et misères des étoiles de la finances" (Highs and lows of the stars of finance). Finally, as usual, we'll wrap up with our market outlook and our largest positions.

Enjoy!

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The Equities

In the first quarter of 2021, we carried out a slight industry rotation of the equity portfolio to adopt an approach favouring value over growth. We have dealt with this matter in the past, since growth stocks, particularly U.S. tech large caps, have obtained the highest returns since the 2008-09 crisis. But we know that, sooner or later, there will be a return to less stratospheric valuations of this industry. We nevertheless profited from it with securities like DocuSign and Amazon. However, we believe the time has come to again diversify this part of the portfolio by adding sectors in which we were previously underweight. Of course, there's a strong possibility that "growth" stocks will keep doing well, so we kept certain names in the tech sector, such as Jabil (JBL) and On Semiconductor (ON). We also added Bank of Montreal (BMO) and Kraft Heinz (KHC) to the portfolio, as these are definitely more defensive securities in less favourable markets.

"A few value stocks were added to the portfolio."

Rivemont MicroCap Fund

The Rivemont MicroCap Fund was the top performer among our traditional strategies over the past 12 months, posting a return of 113%. The first quarter of 2021 began on a high note for shares of micro-cap companies, which significantly outperformed their large-cap counterparts, particularly in the U.S. market. The quarter ended with a period of volatility and a slight pullback in the final three weeks before regaining its momentum at the start of the second quarter.

Now let's look at some fund figures as at March 31, 2021:

- \$15.8 million in net assets under management
- 90% invested and 10% in cash
- 32 positions in the portfolio, the largest representing 14.5% of assets
- The top five positions accounted for 37% of the portfolio
- Unit value of \$10.43,* for a return of +10.4%** over the quarter

* Series A units (MAJ720)

**Return net of all fees

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To compare our first-quarter performance, i.e. from January 1 to March 31, 2021, we use the S&P/TSX SmallCap Index as our benchmark. This index reflects the performance of the Canadian small-cap market. To obtain an overview of U.S. market performance, we use the LD Micro Index as our benchmark. Here's how the fund performed during the quarter compared to the two benchmarks:

"The MicroCap Fund focuses on the market that we know best, the Canadian market."

Rendements - T1 2021	
Titres à petite capitalisation S&P/TSX	9,7%
LD Micro	33,5%
Fonds Rivemont MicroCap	10,4%

All in all, we are quite satisfied with the fund's performance for the quarter. We can see a gigantic gap between the performance of small caps in the U.S. (LD Micro) and Canada (S&P/TSX). Unfortunately, we didn't benefit from this divergence given our 99% exposure to the Canadian market. We believe there's a long-term benefit to concentrating on the Canadian market, which we know better and where we have developed our expertise over the last several years. That said, we occasionally evaluate prospects on the U.S. side, especially now that our team has expanded with the arrival of analysts Mathieu Martin and Philippe Lapointe at Rivemont.

Rivemont Crypto Fund

With a return of over 400% in the past year, the Rivemont Crypto Fund is certainly our most successful strategy. Cryptocurrency is a highly volatile and risky asset class that offers the most interesting long-term market potential. Follow this link for more information on the fund's historical performance:

<https://rivemont.ca/wp-content/uploads/2021/02/Fonds-Rivemont-Crypto-2021-03.pdf>

The Rivemont Crypto Fund publishes its own weekly newsletter. You can subscribe to it by contacting us at info@rivemont.ca. We don't systematically include this product in our traditional profiles. However, we believe that a small portion of all the portfolios could be exposed to this asset class. Feel free to contact us to discuss it.

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Highs and Lows of the Stars of Finance

One name on everyone's lips in today's markets is Cathie Wood, founder and chief investment officer of ARK Investment Management, the firm behind the largest actively managed exchange-traded fund. She was named the best stock selector for 2020 by several media outlets and ARK Innovation ETF, her main fund, had a return of 153% that year.

As you can imagine, these spectacular returns resulted in absolutely phenomenal growth in the firm's assets under management, which soared from \$3 billion in January 2020 to \$35 billion 12 months later. Although this excellent work deserves praise, there's clearly a phenomenon at work here: the birth of a finance star whose influence has become disproportionate. All the media seek her out, and a single word in a speech or tweet can change the market capitalization of a multi-billion-dollar company almost overnight. Her actions become the gospel truth and thousands of investors try to imitate her financial decisions.

"Caution is required with star managers."

But this phenomenon of star managers is not new and their history is fascinating. The best-known of all was Gerry Tsai, who began at Fidelity in the early 1960s, a period that was later called the go-go years on markets. Like the dance style of the same name, stock markets became very energetic and a source of intense joy!

Gerry Tsai revolutionized mutual fund management. In those days, fund managers were excessively conservative in their approach. Caution was the rule, dividends were the main source of return, diversification was necessary and capital preservation was the ultimate goal. The manager preferred to follow trends and chose fast-growing companies like Xerox and Polaroid, the Apples and Teslas of the day. After a quick resounding success, Tsai left Fidelity to create his own fund: the Manhattan Fund. While he hoped to capitalize at around \$25 million, the seed amount came to \$250 million, a never-before-seen figure at the time.

Unfortunately for him, the inevitable happened. Although the bull market had slowed in the late 1960s, it collapsed completely in the spring of 1970, and growth stocks associated with the technology sector were the hardest hit. Electronic Data Systems lost 85% of its value, while Polaroid dropped 64%. During this period, the Manhattan Fund lost 90% and was eventually liquidated.

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In the Manhattan Fund case, those who invested toward the end of the bull market period were the most affected. This is where the connection with Cathie Wood is particularly telling. Most current holders of ARK Innovation ETF units did not benefit from the fund's extraordinary gains, because they had just recently invested in it. Unfortunately for them, the history of the stock market has an annoying habit of repeating itself.

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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?	U.S. equities still lead the pack	Consider a rotation from growth to value type.
Distribution between corporate and government bonds	Which are more interesting, corporate or government bonds?	Long-term government bonds aren't 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 movements.

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 21, 2021

1) Symbol: KHC

Name: **Kraft Heinz**

Description: Packaged food.

Dividend Yield: 3.9%

Total Return: 5.0%

2) Symbol: LUN

Name: **Lundin Mining**

Description: Basic materials.

Dividend Yield: 1.6%

Total Return: 43.0%

3) Symbol: ON

Name: **ON Semiconductor**

Description: Semi-conductor manufacturer.

Dividend Yield: 0.0%

Total Return: 41.5%

4) Symbol: RY

Name: **Royal Bank**

Description: Financial services.

Dividend Yield: 3.7%

Total Return: 63.3%

5) Symbol: IFC

Name: **Intact Financial**

Description: Casualty insurance.

Dividend Yield: 2.1%

Total Return: 74.3%

6) Symbol: NOMD

Name: **Nomad Foods**

Description: Packaged food.

Dividend Yield: 0.0%

Total Return: 25.0%

7) Symbol: BMO

Name: **Bank of Montreal**

Description: Financial services.

Dividend Yield: 3.8%

Total Return: 2.0%

8) Symbol: JBL

Name: **Jabil**

Description: Electronic components.

Dividend Yield: 0.6%

Total Return: 1.7%

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Conclusion

Rivemont's main strength is capital protection in the event of a bear market. We don't hesitate to sell securities or take profits when we think the time is right. However, the fact is that the current bull market isn't running out of gas thanks to the monetary and fiscal actions of Western governments. We can't predict how long this financial bliss will last, but it would be a waste not to take advantage of it.

Sincerely,

Martin Lalonde, MBA, CFA
President

RIVEMONT

The information presented is dated March 31, 2021 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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