RIVEMONT

Microcap Strategy - Q2 2021

July 21st, 2021

Rivemont is the portfolio manager responsible for the investment decisions of the Rivemont MicroCap Fund.

Dear investors,

The second quarter was relatively quiet for Canadian microcaps. While inflation in the North American economy started to rise, at least in the short term, we have seen rising prices for several commodities and a period of volatility in large technology companies. While it's interesting to follow macroeconomic developments, they generally have a minimal short-term impact on the companies we hold in the portfolio. Therefore, it was a relatively low volatility quarter for the fund where we didn't see any large share price movements in most of our stocks.

Let's now take a look at some metrics about the fund, as at June 30th, 2021:

- $16.6 million in net assets under management.
- 91 % was invested and 9 % remained in net cash.
- 29 positions. The largest represented 13.8 % of the portfolio.
- The top 5 positions represented 38 % of the portfolio.
- Fund unit value of $9.88*, for an overall return of - 5.3 %** during the quarter.

* Series A units (MAJ720)
** **Net return after all fees**.

To compare our performance during the second quarter (April 1st to June 30th, 2021), we use the S&P/TSX Small Cap Index as our benchmark. This index reflects the small cap market performance in Canada. To get an overview of the US market performance, we refer to the LD Micro Index. Here is the performance of the two indices during the quarter:

Q2 2021 Returns	
S&P/TSX Small Cap	9.2%
LD Micro	7.3%
Rivemont MicroCap Fund	-5.3%

It is quite evident from the data above that the fund underperformed during the second quarter. As we have mentioned many times, the stocks we hold are generally smaller and more volatile than those that make up the indices. This can explain the occasional significant divergence in performance with the indices, both upward and downward. That said, our strategy is to own companies with excellent growth prospects that we consider undervalued. Therefore, we maintain a patient approach and let our companies execute their business plan, which we believe will allow us to enjoy superior long-term returns.

Also, it's important to remember that the S&P/TSX Small Cap Index is heavily

exposed to the natural resources sector (24 % in basic materials and 17 % in energy), while its exposure to the technology sector is only 4 %. It was not surprising to see an excellent performance for the Index when natural resources prices were on the rise.

Focus On Quality

Our goal is always to position the portfolio in our best investment ideas. This is, of course, a very dynamic process that requires reassessment and repositioning regularly. Quiet times when market volatility is lower are great times to perform this work. We also make sure to continue to innovate and improve our research and valuation processes.

We designed a new scoring system to assess our portfolio companies' competitive advantages and quality attributes during the quarter. This new system allows us to rate and compare companies across a range of qualitative aspects, ultimately leading to a better decision process.

We identified three up-and-coming new companies that deserved a place in the portfolio throughout our comprehensive review of the portfolio and watch list. Consequently, we chose to divest six less interesting positions to make room for the new ones. The lack of conviction in the business model and long-term outlook motivated our decision to sell these positions during the quarter. The net result was a decrease of three positions in the portfolio.

Last year, the market collapse caused by COVID-19 offered many buying opportunities, causing the number of positions in the portfolio to increase beyond our usual range of 25 to 30 positions. We are now happy to have come back within this range (currently 29 positions), which forces us to remain selective and disciplined in allocating capital.

In the end, we feel we are going into the second half of the year with a stronger portfolio.

Outlook

As a portfolio manager with a fundamental research approach, our role is not to predict when the next market correction will occur but rather to adjust our risk appetite according to the time of the cycle we find ourselves in. It's been a few quarters since we've reported taking a more cautious approach than usual, given the generally high valuations we see in the market. Nonetheless, we remain primarily invested (at 91 %) with an increasingly strict focus on quality companies and less on speculative opportunities.

When it comes to the fund's outlook for the second half of 2021, an important item to watch will be the performance of the private investments we have made in recent years. We currently hold positions in four private companies, and liquidity events could occur in two to three of these companies in the coming months. A liquidity event means, for example, an IPO or a sale of the company. This type of event allows us to monetize our private investments or, at the very least, to revalue them to their current fair market value. We believe some positions have made fundamental progress that will justify a significantly higher valuation when they raise their next financing round or go public.

It's still too early to make assumptions about the returns this could generate for the fund, but we are very optimistic about our prospects on the private side for the rest of the year.

As usual, don't hesitate to call or email us if you have any questions regarding your investments or if you wish to refer friends and family members who are looking for a profitable alternative strategy for their portfolio. The minimum initial investment in the fund is $100,000.

Thank you for your trust, and we look forward to our next communication!

Rivemont Investments

Portfolio Manager of the Rivemont MicroCap Fund

Units of the Rivemont MicroCap Fund are available under exemptions from the prospectus requirements, pursuant to National Instrument 45-106 Prospectus and Registration Exemptions, and are available only to qualified investors, including portfolio manager clients. This document is not a recommendation nor an investment advice and is presented for informational purposes only.

Martin Lalonde
President
160, boul. de l'Hôpital, suite 202
Gatineau, Quebec, J8T 8J1
Tel: 819-246-8800 or 1-844-318-8800
martin.lalonde@rivemont.ca

Jean Lamontagne
Vice President, Business Development
465, rue Saint-Jean, suite 509
Montréal, Québec, H2Y 2R6
Tel: 438-387-3300
jean.lamontagne@rivemont.ca

www.rivemont.ca

Aimez-nous sur Facebook / Like us on Facebook
