



Financial Letter
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Introduction

Hello everyone,

Needless to say, I'm glad that 2021 is behind us and wish everyone a less tumultuous social and professional life in the new year. Still, despite the pandemic's major inconveniences, Rivemont maintained its rapid growth of recent years, and we now have close to \$100 million in assets under management. I would like to take this opportunity to thank everyone who rolled up their sleeves to tackle the challenges that arose.

The team grew stronger during the year as Valérie Marquis joined us to focus on client development and relations, and Mathieu Martin was appointed portfolio manager of the Rivemont MicroCap Fund. Congratulations also to Philippe Lapointe, who succeeded brilliantly on his first step toward his CFA designation.

Reflecting the market, there was a marked variance in the performance of our Rivemont strategies during the year. However, a diversified portfolio featuring these strategies produced an attractive positive return. I therefore intend to review each of these strategies in detail in this message, while leaving cryptocurrency to its own weekly newsletter. We are also working on a separate communication for the Rivemont Alpha Fund. As usual, we will conclude with our market outlook and an outline of our largest positions.

Enjoy!

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Private Wealth Management

After a mixed start, the equity portion of our private wealth management portfolios closed the year on a high note with a 12.1% return in the fourth quarter and 6.6% in December alone. Over the year, we gradually shifted our positioning toward value stocks, and this decision has paid off considerably in recent months.

Although purchases are important in portfolio management, sales are even more so, in my opinion. And this may be the hardest thing to grasp for beginners in this field.

“We progressively added value stocks to portfolios.”



Docusign ranks among the stocks that contributed most to our success in recent years. However, selling proved to be a critical decision in this case also to take profits that could be injected in our other better investment ideas.

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“Portfolio losses were avoided by rotating stocks.”



Both securities mentioned above have lost 72% and 51% of their value respectively since their peak last fall. Thanks to our trend monitoring and sector rotation approach, our investors benefitted from the market rise and avoided the worst of their downturn.

During the year, we also reduced bond exposure by half in our traditional strategies. Since rates are expected to continue rising in coming months, and this will possibly push bond prices down, we decided to protect capital while waiting for better days for this asset class.

Rivemont MicroCap Fund

To be honest, 2021 was a difficult year for our Rivemont MicroCap Fund strategy. After seeing the fund appreciate by more than 15% in the first few months, we witnessed a slow collapse for most of the last nine months of the year.

Sector exposure proved to be an important factor in its underperformance. The Rivemont MicroCap Fund is 49% exposed to the technology sector, while Canadian and U.S. indices are 5% and 13% exposed respectively. Energy and basic materials, two sectors to which we have little or no exposure, performed particularly well.

Looking back, we believe that the key takeaway from this difficult year is that our investment style and strategy didn't bear fruit in 2021. That said, we are confident that this strategy will continue to stand out in the long term, as it has over the past four years. In order to give you a longer-term

“Canadian microcap stocks were not in favor in 2021.”

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perspective of our performance against the indices, here are the fund's annualized returns since its launch in January 2018:

“Our fundamental research gives us a hedge on the market.”

Rendements Annuel Composé (2018-2021)	
Titres à petite capitalisation S&P/TSX	6,6%
LD Micro	6,5%
Fonds Rivemont MicroCap	16,6%

As we've said many times, keep an eye on the long term, both during the good and less good years. While periods of underperformance are extremely frustrating, they are necessary and unavoidable in the pursuit of a differentiated and successful long-term strategy.

Three Key Assumptions

We believe three key assumptions justify investing with Rivemont.

1. First, the equity market of companies with small or mid capitalization will eventually outperform its large-cap counterpart.

For many years, the large caps have been dominant, particularly the FAANG stocks,¹ driving the U.S. indices up with their exceptional performance. Nevertheless, bear in mind that small caps have always generated better returns than large caps over the very long term. The current trend should reverse itself sooner or later and leave room for the small caps to outperform.

2. The stock market presents tremendous opportunities for a good active manager to stand out.

The Canadian market has more than 4,400 exchange-listed companies, of which over 3,000 are considered to be microcap companies (market capitalization less than \$300 million). While the major financial institutions that manage large sums of money focus on the most mature 1,000 to 1,500 companies, the other 3,000 are left in

¹ Acronym designating the leading technology companies in the U.S.: Meta (formerly known as Facebook), Amazon, Apple, Netflix and Alphabet (formerly known as Google).

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“A young, dynamic and passionate team having the investors’ interests at heart.”

the hands of retail investors and small investment funds like ours. The market abounds with inefficiencies and opportunities for a full-time team that does its research thoroughly. This is a area where the likelihood of outperforming the market is high.

3. Rivemont is an active manager that can beat the market.

This is certainly the most critical assumption. Next, since there is little certainty in this world, we again emphasize our returns history over the past years as proof of our ability to beat the market.

Finally, it is critical that you have confidence in our management team and investment philosophy, which is to hold a portfolio focused on high-quality, fast-growing companies.



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.	Rates are expected to rise.
Distribution between Canadian, U.S. and international securities	Which securities are most interesting: Canadian, U.S. or international?	Canadian equities are becoming interesting again.	Rotation from growth to value type.
Distribution between corporate and government bonds	Which are more interesting, corporate or government bonds?	Bonds have little attraction.	We recommend more 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 portfolios.	We don't 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 January 26, 2022

1) Symbol: RY

Name: **Royal Bank**

Description: Financial services

Dividend Yield: 3.4%

Total Return: 96.8%

2) Symbol: BMO

Name: **Bank of Montreal**

Description: Financial services

Dividend Yield: 3.7%

Total Return: 33.6%

3) Symbol: JBL

Name: **Jabil**

Description: Electronic components

Dividend Yield: 0.5%

Total Return: 14.9%

4) Symbol: IFC

Name: **Intact Financial**

Description: Casualty insurance

Dividend Yield: 2.2%

Total Return: 81.4%

5) Symbol: NVT

Name: **nVent Electric**

Description: Electrical equipment

Dividend Yield: 2.0%

Total Return: -0.6%

6) Symbol: GWO

Name: **Great West Life**

Description: Insurance company

Dividend Yield: 5.1%

Total Return: 1.6%

7) Symbol: XGD

Name: **iShares S&P/TSX Global Gold**

Description: Gold producers

Dividend Yield: 0.0%

Total Return: -2.6%

8) Symbol: ON

Name: **ON Semiconductor**

Description: Semi-conductor manufacturer

Dividend Yield: 0.0%

Total Return: 90.3%

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Conclusion

We're optimistic about 2022 and confident we'll be able to continue adding value to the portfolios of investors who have placed their trust in us.

On another matter, if you hadn't heard, Martin Lalonde is now a financial columnist for Les Affaires. To access this content and other articles, please visit the "Rivemont in the media" section of our website

Happy 2022, everyone!

Martin Lalonde, MBA, CFA
President

RIVEMONT

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