

# RIVEMONT

## Microcap Strategy - Q1 2022

*April 21st, 2022*

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

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Dear investors,

2022 got off to a tumultuous start, to say the least. With inflation reaching multi-decade highs, central banks raising interest rates to fight that inflation, global supply chain disruptions, the war in Ukraine and more, we were in an environment conducive to volatility in the stock market.

After starting the year with two months of negative returns, the valuations of our portfolio companies were at levels not seen in a long time. We believed this was an excellent time to deploy more capital into the Canadian microcaps

market, and we did so with a portion of the available cash. The quarter ended with a nice rebound in March, suggesting a potential return of capital inflows into the sector.

Let's now take a look at some metrics about the fund as at March 31<sup>st</sup>, 2022:

- \$14.3 million in net assets under management.
- 92 % was invested and 8 % remained in net cash.
- 29 positions. The largest represented 16.9 % of the portfolio.
- The top 5 positions represented 38 % of the portfolio.
- Fund unit value of \$8.10\*, for an overall return of - 11.6 %\*\* during the quarter.

\* Series A units (MAJ720)

\*\* **Net return after all fees.**

To compare our performance during the first quarter (January 1<sup>st</sup> to March 31<sup>st</sup>, 2022), 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:

Q1 2022 Returns	
S&P/TSX Small Cap	8,4%
LD Micro	0,1%
Rivemont MicroCap Fund	-11,6%

The main reason for the fund's underperformance versus its benchmarks for the quarter was the divergence in sector allocations. The Canadian index, in particular, has a high weighting in energy (20%), a sector that has performed exceptionally well since the beginning of the year in this inflationary period. The prices of certain natural resources have also experienced marked increases recently, which is favorable to a portion of the materials sector, which is also highly represented in the index (29%).

As for the fund, exposure to energy and materials is currently at 0% and 2%, respectively. We generally avoid these sectors because they are very sensitive to economic cycles and commodity prices (oil, natural gas, metals, etc.). We believe that these sectors are not good places to invest for the long term compared to more sustainable sectors such as technology and healthcare.

While all industries go through periods of overperformance, it's important not to get distracted by chasing the current hot sector. We prefer to focus on the long term by investing in solid companies that can grow through an entire economic cycle, and we expect to generate better long-term returns by doing so.

## **Monthly Video Updates**

At the beginning of this year, we started publishing monthly video updates about the microcap strategy. These updates aim to present the monthly returns and some insights about the market, the outlook we see, and some other highlights.

You can find the three videos produced during the first quarter via the following links:

[Monthly Update – January 2022](#)

[Monthly Update – February 2022](#)

[Monthly Update – March 2022](#)

These will give you a detailed overview of what happened throughout the quarter, while the quarterly letter will aim to provide a general summary of the past three months.

Subscribe to our Youtube channel if you like this type of content, as Rivemont aims to produce more videos on different topics over time.

## **An Example Of Our Research Process**

We initiated a new position in a pharmaceutical company on the US market during the first quarter: Assertio Holdings (Nasdaq: ASRT). It is a small

starting position for now, as this opportunity carries some significant risks (that are accompanied by an exceptional return potential).

We discovered the company when Philippe Lapointe, our microcap analyst, noticed a new investment thesis posted on the MicroCap Club, an exclusive online discussion forum in which we actively participate. The investment thesis piqued Philippe's interest, who set about doing more research on the company.

After several hours of research, it became clear that the potential return was very high provided that certain substantial risks did not materialize. We continued to dig and built a financial model to evaluate the business's financial outlook and valuation.

The next step, paramount in our process, was to speak with the management team. We scheduled a one-hour call with the CEO and CFO to ask all our questions and ensure we fully understood the business.

At the end of this multi-day research process, we decided not to invest.

We did not have enough conviction in our financial forecasts to invest at that time. On the other hand, we were definitely going to continue following the company to develop higher conviction over time.

A few weeks later, the company published exceptional financial results and provided strong guidance for the coming year. The guidance was quite similar to what we had in our financial model, which raised our conviction that we were right in assessing the opportunity. The last missing element was in place for us to invest.

As soon as the market opened that morning, we bought our first shares at \$2.37 each as the stock opened higher. The stock ended the day at \$2.60, followed by a subsequent run-up to \$3.50 over the following weeks before experiencing a pullback recently.

As mentioned initially, this is a small position in the Rivemont MicroCap Fund. This story aims not to brag about the short-term performance achieved or suggest that it will make a massive difference in your portfolio. The important takeaway is this: we were ready to act when the opportunity presented itself. Our research was done, we had spoken with the management team, the financial model was built, and we had studied the risks in detail.

At a time when some other investors were likely beginning their research following the release of the solid financial results, we were prepared and acted quickly when we needed to.

This kind of situation happens all the time. We monitor approximately 150 companies regularly and meet more than a hundred management teams per year. All this work doesn't lead to an investment in all companies, but we are prepared to act quickly and decisively when it does. As the microcap industry is relatively inefficient and stock prices take longer to adjust to new information, it is essential to act quickly to take advantage of these inefficiencies.

This example illustrates how we can gain an edge on other market participants in the pursuit of superior investment returns.

## **Outlook**

In the introduction to this letter, we listed a few macroeconomic factors that led to market volatility in the first quarter. These risk factors are still very real today, and volatility may remain elevated in the coming months.

Despite a macroeconomic environment that is difficult to navigate, the fund's portfolio remains invested in solid, growing companies that generate profits. We continue to think that the valuations of our portfolio companies are very inexpensive, both in historical terms and in relative terms, compared to larger-cap stocks.

Our objective remains to stay almost fully invested since we expect excellent long-term returns from current valuation levels.

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.

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.*

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