IBV CAPITAL

2014 Annual Partnership Letter
February 2015

Dear Partners,

We have concluded our first year of Fund operations and I would like to sincerely thank each of you for your commitment and trust. This year was remarkable for both myself and IBV Capital. I'm tremendously excited for IBV's promising future, and while we eagerly look forward, it's important for us to spend a few moments reflecting on the past year and discussing some topics that I think will be of interest.

Market Conditions

As is often the case in global markets, 2014 made for another interesting year. Before the ink had even dried on our Partnership Agreement, sentiment began to shift towards muted global growth. As crude prices tumbled over 50% in the second half of 2014, with most other commodities following suit, market participants began considering, and later anticipating, a deflationary global environment. This sentiment greatly impacted bond yields and, to a seemingly lesser extent, equity valuations; save for the abrupt market decline and subsequent rebound in October.

During the year, many commonly followed indices produced attractive results. In North America, we have now experienced four straight years of positive returns. For global context, the MSCI World Index, which captures 85% of the free float-adjusted market capitalization with 1,634 constituents across 23 developed market countries, has increased for the last three years. What's interesting to us in particular is not the length or speed of the ascent, but the value being placed on both anticipated and historical earnings and cash flow. As 2014 ended, the S&P 500 traded at 19.9 times earnings, while the MSCI traded at 17.4 times earnings. Of further notable interest is that return results are becoming increasingly concentrated around fewer and fewer securities, though this evolution in the composition of returns is unsurprising as one considers the present valuation environment.

I suspect that many of our Partners will find it beneficial if I provide some historical context to today's investment environment. While we have a global mandate and are entirely benchmark agnostic, I do find the S&P 500 index (and its early iterations) to be highly informative due to the voluminous amount of data that has been collected on it and its highly diversified constituent base. Since 1926, the first year the S&P index began updating pricing data daily, the index has traded at an average of 16.5 times the prior year's earnings. Further scrutiny of this 89-year historical price to earnings relationship reveals that, 75% of the time, this earnings ratio remains below 18.5. At the present day ratio of 19.9, we find ourselves 21% higher than the average of 16.5 and 8% above 18.5, the top quartile.

To some extent, this higher earnings multiple may be explained by the abnormally low interest rates that exist. The year ended with 10-year yields on the government bonds of the United States, Canada, Germany and Japan at 2.17%, 1.79%, 0.54% and 0.32%, respectively. In the case of Germany, their 2-year government bond yield finished the year at -0.10% (this is not a typo). This means that buyers of the 2-year bunds are willing to pay the German government to hold their money for the next two years. This is hardly an attractive investment proposition, and this negative yield is both unsustainable and speaks precisely to European investment sentiment.

A low interest rate environment in Europe can be directly attributed to disappointing economic growth and deflationary pressures. In the United States, the correlation between growth and interest rates is becoming less obvious and is increasingly subject to change. Since 2008, the United States Federal Reserve has increased their balance sheet from $900 million to $4.5 trillion, or 24% of the country's gross domestic product figure. Only during the height of the Great Depression, when it reached 23% of GDP, has the Federal

Reserve's balance sheet represented such a large portion of the country's economic output. While market expectations of inflation remain muted, one could reasonably argue that the seeds of inflation have been sown. I am increasingly cautious about making meaningful investments in debt – more specifically, long-term debt.

While we have the flexibility to invest in fixed income securities, many important variables indicate that interest rates are likely to increase over time. I firmly believe long-term government debt is one of the riskiest investments available today. Unfortunately, due to the historically low default risk and pricing volatility (a poor proxy for risk) of most governments' debt, both professional and amateur investors alike are trumpeting them as a low-risk investment alternative. In today's environment, expecting to earn attractive real returns under the pretense that interest rates will remain depressed, or decrease further, on a permanent basis, is equivalent to picking up nickels in front of a speeding train. Sure, one may secure a minuscule positive return in the near term, but at what potential cost?

I should take a moment to explain to our Partners that I make no attempt to forecast the performance of the market, economy, or interest rates. Instead, I utilize present conditions, with history acting as a guide, to place valuations and the financial performance of businesses and industries into context. My efforts are entirely devoted to finding undervalued securities. To the extent that I look for these securities in a market that, by most measures, appears reasonably valued will make the task at hand more difficult, but not impossible. As markets climb, especially from these levels, there is often a temptation to relax one's investing standards in order to participate alongside everyone else. We will not operate in this fashion. We will remain exceedingly prudent and disciplined, *especially* under these conditions. I will endeavor to never loosen our investment standards.

Our Results

Since its inception, our Units[1] experienced a 2.6% decline in value. Over this same timeframe the S&P 500 and MSCI World Index experienced a 3.5% and -3.3% return, respectively. Our short-term performance is less than desirable and obviously not how we would have liked to start the Partnership. However, it is not entirely unexpected nor uncharacteristic. For our newer Partners, this statement warrants further explanation. I feel that it's equally important that we explore the performance characteristics you should expect from us in the future.

The investment Partnership started, as most partnerships do, with a 100% cash allocation. Our conservative and disciplined investment approach, combined with 2014's market valuation environment, resulted in limited attractive investment opportunities during the first few months of our existence. Not until the precipitous decline in oil prices dislodged a select few great companies from reasonable valuation levels did we actively begin to deploy our capital. As usual, we've been patiently waiting for an opportunity such as this one to present itself. As we deployed our capital into industrial stocks that have actual and perceived ties to the oil industry, our portfolio became subject to the whims of an out of favour segment of the market.

We often find ourselves investing into adverse conditions with pessimistic market sentiment and volatile pricing characteristics. As a result, our portfolio's volatility is exacerbated during periods when we are adding positions. It may also be heightened by our tendency to have a relatively concentrated portfolio. As a result, under certain circumstances, there is the possibility that our short-term returns may be rather volatile. This is a common theme for us and one that we are very comfortable with.

Why are we so comfortable with this when so many of our peers are not? It's because we do not believe volatility is an appropriate proxy for risk. Instead, we define risk as the probability of a permanent loss in capital. By investing into markets that exhibit pessimism, fear and their by-product volatility, we can buy quality securities at exceedingly low valuations. Securing low valuations, in turn, limits the probability that the investments we make will continue to fall in value and remain there permanently. This is why we see opportunity while others see risk.

[1] Based on the net investment returns of the IBV Capital Global Value Fund Canadian Feeder LP – Class A Units

As a direct result of our investment approach, our portfolio should exhibit distinct return characteristics throughout market environments. I anticipate that our returns will provide downside protection during market declines and will exceed commonly referenced benchmarks in the initial and mid-phases of a market's recovery. As sentiment and market conditions improve, our disciplined approach may begin to constrain our returns, but will improve upon our already strong risk mitigation profile. As a result, it's entirely possible that our performance will align with or potentially lag behind benchmark returns during the very late stages of a market's ascent.

A Typical Investment

To help you better understand how we operate, I would like to spend a few moments exploring our investment in Trinity Industries Inc.

Trinity Steel was founded in 1933 and manufactured butane tanks in a Dallas County mule barn. In 1958, Trinity Steel merged with Dallas Tank Company to form Trinity Industries Inc. Since this merger, Trinity has evolved considerably – with a 44% market share, it is now North America's largest rail car manufacturer and a leading lessor of rail cars. They also manufacture inland barges, construction components and energy related equipment.

In 2013, Trinity earned $376 million on $4.4 billion in revenues. Railcar manufacturing, which represents 50% of operating profits, delivered 24,335 rail cars and enjoyed 17% operating margins. Since 2005, Trinity's railcar manufacturing operating profits have grown from $135 million to $490 million, which represents a very attractive 18% compounded annual growth rate. By September 30, 2014, demand for Trinity rail cars had resulted in a 29% increase to their existing order book from the previous year, with a backlog increasing to 51,725 cars from 40,050. This increased the value of the backlog from $5.1 billion to $6.1 billion. Continued robust railcar demand will further improve the depth and size of Trinity's order book, contributing to long term revenue growth fundamentals.

Supporting railcar demand is continued US economic expansion and the meaningful capacity-enhancing steps railroads have taken to overcome existing bottle-necks. Locomotive units in service, a sound indicator of rail capacity expansion, increased by 21% between 2003 and 2013 to 25,033. Promisingly, there are indications of continued demand for more locomotive units. While the shift towards increasing capacity will play an important role in future railcar demand, so will the upcoming substantial railcar replacement cycle. Nearly 45% of all railcars are 31 years of age or older, with 14% being older than 40 years. From a regulatory standpoint, all railcars manufactured prior to 1974 (41 years ago) must be retired at 40 years of age. However, one may apply to extend a car's service life to 50 years if they can prove that an appropriate maintenance program is in place. Railcars manufactured after 1974 enjoy a regulated service life of 50 years, which may similarly be extended. Considering these dynamics, we can reasonably assume that by 2030, approximately 770,000 cars will need to be replaced. This equates to replacing 51,500 cars per year for the next 15 years. From Q4-2013 to Q3-2014, the industry delivered 64,218 cars. This upcoming replacement cycle is significant and represents over 80% of today's delivery run rate, which is already nearing 15-year highs and reported industry capacity limitations.

The collapse in oil prices has contributed to Trinity's share price decline. While Trinity has experienced a benefit from increased demand of tank cars as a result of the shift to move crude by rail, they are not reliant on this demand to grow their business. Let's take a moment explore oil by rail and its recent effects on the rail car industry. Since 2009, when oil started becoming shipped by rail in meaningful volumes, 73,000 tank cars designated for crude shipment have been ordered. This represented 21% of all railcar orders. Since October 2011, only 6% of new orders could be attributed to crude carrying cars. While tank cars still represent an industry growth opportunity, they have not contributed as significantly to recent order demand as the market may imply. Furthermore, of the 73,000 cars ordered, 80% are for pre-petition versions of the DOT-111 tank cars, which must be upgraded or replaced by 2017 to reflect anticipated mandatory increased safety standards – a potential revenue opportunity for Trinity. Due to the relatively high cost and long

turnaround time of completing a required retrofit, many tank car owners are expected to order replacements. Trinity is also well positioned to retrofit tank cars should their clients choose this avenue.

To summarize, it is estimated that 1.4 million railcars exist in the United States and approximately 310,000 of these cars are tank cars. With twenty-two per cent of tank cars being designated for crude shipments, we can reliably determine that only 5% of all US railcars are actually utilized for the shipment of crude. While a boost to earnings, we can conclude that tank car orders have not been the sole driving force of backlog growth since October 2011 and that the overall crude tank car segment is not as meaningful as the market has implied by Trinity's precipitous share price drop.

Railcar leasing, representing 30% of operating profits experienced equally impressive results, with operating margins of 46%. The growth, stability and low capital costs associated with the rail car leasing management business is very attractive to us. Since 2003, railcar leasing operating profits have increased from $41 million to $297 million, which represents a compounded annual growth rate of 22%. Today, the division has 75,000 cars available for lease (of which Trinity owns a significant portion and can monetize if desired), a utilization rate of 99.7% (up from a 10-year low of 97.8% in 2009) and an average lease term of 3.3 years.

Trinity's railcar leasing business is very attractive. It represents a reliable cash flow generator throughout even the harshest economic environments, as evidenced by the high utilization rates and relatively stable operating profit margins throughout the most recent financial crisis. Adding to the attractiveness of this segment is the economic life of railcars, with the vast majority being used until the age of 40 and potentially longer; greatly exceeding the 35-year depreciation rate being applied by Trinity. This suggests to us that the strong economics of this segment are even more attractive than reported.

Trinity's construction, energy and inland barge segment, which represents 21% of operating profits, enjoys operating profit margins of 10%, 9% and 17%, respectively. Combined, the operating profit of this segment has increased from $42 million in 2003 to $210 million by the end of 2013, which represents a 17% compounded annual growth rate. The backlog for this group is $1 billion or an estimated one year of revenue for the combined inland barge and structural wind towers segments. The market appears to be overlooking the value of this highly profitable and growing segment.

A product in Trinity's construction segment, specifically their ET-Plus guardrail end terminal (0.7% of Trinity's Q1-Q3 2014 sales), is facing legal scrutiny. In 2005, the ET-Plus guardrail underwent changes to the guardrail head and feeder channel that were not disclosed to the Federal Highway Administration. In October 2014, Trinity was ordered to pay $525 million for failing to disclose the changes. The FHA has required Trinity to conduct eight new crash tests to determine if the changes had altered the safety of the mechanism. The FHA has announced that data for four crash tests, conducted on Trinity's most popular end terminals, have been analyzed and received a passing grade. This has removed a considerable portion of the replacement cost risks Trinity was facing. The remaining four tests are still undergoing analysis by the FHA, but a Trinity spokesperson has indicated that these guardrails have also performed as intended. An official announcement from the FHA is pending. While the lawsuit represents a sizable award, we estimate a worst case scenario charge to be approximately $1 billion for all legal expenses and guardrail head and feeder replacements, which we have left unadjusted following the recent aforementioned positive developments. A charge of this value can easily be covered by Trinity's operating cash-flow and present liquidity position. What is more, we believe this worst case scenario projection has already been more than factored into the current share price. Furthermore, we have not seen indications of declining revenues in other Trinity segments, suggesting that this represents a one-time item that will not critically impair the company's reputation and consequently its future earnings capabilities.

Unfortunately, falling oil prices and a lawsuit has dominated Trinity's agenda and contributed to this great company's unjustifiably low valuation. We have shown that their recent growth being entirely attributable to crude by rail demand is greatly exaggerated and that their tank car demand may indeed strengthen on the back of new safety standards. Furthermore, conditions for future demand of their other rail car types as a result of the expanding US economy and upcoming replacement cycle are very favourable. As well, their other businesses, specifically rail car leasing, have very attractive economics that are being entirely

overlooked. As I write this letter, Trinity's market capitalization is $3.9 billion and they trade at 6.0 times trailing earnings. This is a 57% discount relative to their 10-year historical price to earnings average of 14.1. After we adjust for cash and marketable securities of $663.7 million, their price to earnings multiple drops to 5.0. Greenbrier and American Railcar (57% owned by Carl Icahn), two of Trinity's largest competitors, currently trade at 11.4 and 10.3 time's earnings, respectively. This leaves Trinity trading at a 45% discount to their market weighted peer average. Through our analysis, Trinity is trading at very inexpensive levels on a historical and relative basis. This discount is unwarranted and should reverse in due time. Importantly, with present valuations so depressed, the probability that Trinity's valuation permanently declines from here is extremely low. This gives us great comfort as we think about the favourable risk return dynamics of this investment.

IBV Capital

In January 2014, we moved our office to 180 Bloor Street West, directly across from the Royal Ontario Museum. Our new office, while an improvement from our past location, remains modest in nature. It consists of three offices, a boardroom and small seating area. At present, it is occupied by Ryan Perillo, Thomas Wnuk and myself.

Ryan, our Senior Financial Analyst, is an experienced Chartered Professional Accountant, Chartered Accountant and a CFA Charterholder who joined us from PricewaterhouseCoopers. He plays an invaluable role in all things IBV. While our operations and compliance have always been strong, under his stewardship we have improved them considerably. Importantly, his contributions have allowed me to devote even more of my time towards investing.

Thomas, our Associate, has returned after completing his BBA from Wilfrid Laurier University, my alma mater. Thomas previously worked for IBV during an internship in 2013. It was as evident then, as it is now, that Thomas shares both a passion and aptitude for value investing. You simply cannot teach passion or work ethic, and Thomas has an abundance of both. In addition to these qualities, he is an incredibly meticulous research partner.

Ryan and Thomas are an absolute pleasure to work with and I love coming to work every day. As a business owner myself, I appreciate the tremendous amount of effort that it takes to accumulate the capital that you have invested with us. Personally, I have invested all of my investible net worth (and sweat equity) into IBV Capital and our Fund. This not only demonstrates my conviction in the firm and our offering, but it also directly aligns my long-term interests with those of our Partners.

I truly appreciate your investment with IBV Capital. Should you have any questions or if I have not been clear in any respect, I would be very happy to hear from you.

Sincerely,

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