IBV CAPITAL

Q2 2021 Partnership Letter

Dear Partners,

We enjoy sharing the stories associated with each investment that is introduced into our portfolio. And we have quite a few to tell. A full 36% of the positions in our portfolio have been added within the last six months.

Sourcing these investments represents an important part of our process. However, determining the sizing an investment will receive throughout its stay in our portfolio is equally critical. As this dictates the contribution the investment will make towards our portfolio's risk and return profile.

Historically, we have achieved sound returns with a modest level of risk – which we define as the probability of a permanent loss of capital - by focusing our capital on our best investment opportunities. How we quantify this 'focus' is determined by the key factors and constraints that our portfolio sizing process considers.

Intrinsic Value

What we think a security is worth – its intrinsic value - plays an important role in our investing process and how we size an investment within the portfolio. For instance, before we consider introducing any investment into the portfolio it must exhibit a substantial intrinsic value gap – the difference between its market value and intrinsic value. We refer to this as our margin of safety.

Once an investment is introduced, those with a large intrinsic value gap will receive a larger sizing than those will receive if they have a narrower gap. And we use the full range of an individual investment's intrinsic values – from low to expected to high - to refine its sizing further.

Diversification

To generate a responsible level of diversification – while still focusing on our high conviction opportunities - we limit the size a single security can take within the

portfolio. We have also set a minimum investment criterion to ensure each security contributes to the portfolio's risk and reward profile throughout its holding period.

Since the qualitative features of an investment are captured within its intrinsic value, we rely on the statistical return characteristics that our best and worst investments have exhibited to further guide us in the sizing process. This will contribute to determining where a security will reside within our minimum and maximum sizing spectrum.

Appropriately, the investments we identify that share similar characteristics to those of our highest returning securities will receive a maximum sizing. However, the precise sizing it receives is more nuanced. For instance, we make it increasingly challenging for a security to be rewarded with a larger sizing. Therefore, if one receives our maximum sizing, it indicates that we have sourced an exceptional opportunity.

Liquidity

We measure liquidity in terms of how many trading days it will take to turn over a specific percentage of our entire portfolio. We carefully manage our liquidity levels so we can adapt to evolving investment conditions by acting quickly when opportunities present themselves. This flexibility through liquidity, combined with our cash strategy, has become a core strength of ours over time. Particularly under adverse market conditions.

Cash

We view cash as an option on opportunity. Therefore, the level of cash we hold is determined within the context of how many attractive investment opportunities we are identifying at a given moment in time. When the frequency of finding attractive opportunities is high, the cost of maintaining a high cash level is high. So, we hold less of it.

Conversely, we have experienced moments when we frequently encounter investments that do not meet our rigorous criteria. Instead of loosening our criteria to reflect the environment, we hold increased cash levels.

Fortunately, these environments haven't lasted long. We overcome droughts quickly because we're willing to focus our portfolio on just 10 to 20 investments. We can also source globally – opening our opportunity set immensely – making it easier to find an investment that fits our narrow definition of attractive.

Our portfolio sizing approach has led to a long history of successful investment allocations. Since our inception, it has generated $20 of realized investment gains for each $1 of realized investment losses[i]. This amplifies the success rate we have developed when selecting individual investments - over 85% of our investments have enjoyed a positive return. These statistics not only highlight the reliability of our sourcing and sizing process but indicate that our core mandate of protecting against a permanent loss of capital has remained intact.

Driving Returns

The market value of our IBV Capital Global Value Fund decreased by 4.1% (net of fees) in the second quarter of 2021. While the intrinsic value of our portfolio decreased by 10.3% during the quarter. For comparative purposes, during the second quarter of 2021, the MSCI World Index increased by 7.7%.[ii]

Our market and intrinsic value performance were influenced by our investment in FirstGroup Plc (FGP) – one of the world's largest transportation companies. The investment thesis for FGP was predicated on the company realizing the full potential of its North American division. Specifically, First Student, the world' s largest operator of school buses.

Following our initial investment in 2019, we shared with management the merits of separating their UK rail and bus business from their North American transportation businesses. This dialogue was not unique, as their top shareholders were expressing identical sentiments. Unfortunately, management and the board were reticent to act.

As pressure mounted – and board members were replaced – their tone changed, and they undertook a process to sell their North American divisions. However, their timing was exceptionally poor. The process began just weeks before the world was consumed by COVID-19.

With few buyers capable of proceeding, they halted the process only to resume it a few months later. We were under the impression that interest remained extraordinarily high. Only later did we come to understand that the lack of certainty on school reopening's, among other addressable concerns, had severely limited the number of participants that were willing to reengage in the process.

These uncertainties could have been rectified if management waited until a later date before restarting the sale proceedings. The company was not a forced seller, so pausing

was a viable option. Unfortunately, they decided to proceed and secured a less then desirable offer for First Student and First Transit.

When the proposed deal was announced, the negative investor sentiment was immediate. The company's top two investors publicly condemned the transaction. As a top 20 investor, we did as well.

In an unusual display of opposition to a management recommendation, Glass Lewis, one of the world's largest shareholder proxy advisory firms, recommended shareholders vote against the deal on "poor transaction timing and inadequate valuation". Their equally influential peer, ISS, gave it 'cautionary approval', noting that the no-shop clause restrained the board from "procuring, soliciting or encouraging potential bidders" to make a competing offer.

Despite having a widely dissatisfied investor base, management held a shareholder vote only 34 days after the announcement. This unnecessarily expedited timeline was made more challenging because access to the deal's details were only provided to shareholders who physically traveled to their head office in Aberdeen, Scotland. An unusual requirement, especially during a pandemic when travel had been broadly prohibited.

Only 61.3% of investors voted in favor the deal. This was shockingly close to the bare minimum required – 50% according to the company's by-laws - and well below that of a typical widely supported transaction. For a point or reference, in North America, good corporate governance requires that a transformative transaction receive a minimum shareholder approval of 66.6%. So, within the context of good corporate governance, proceeding with this transaction would not pass muster.

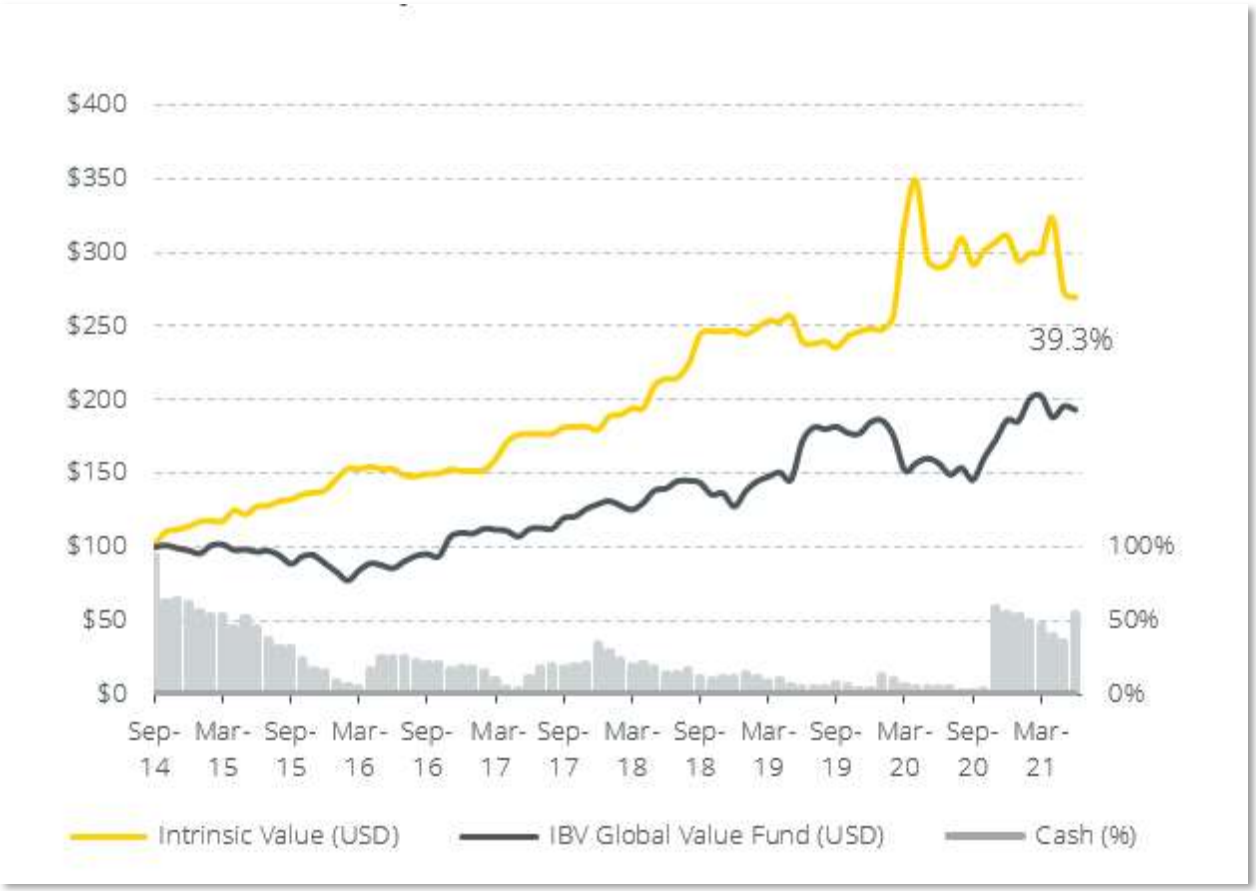
Despite our best efforts, FGP's management and board, of whom own an insignificant percentage of the company[iii], have proceeded in consummating the deal. Since the transaction can no longer be reversed – there was even an effort to break it up using legal means after the vote and before it closed – we have marked down the intrinsic value of the investment to reflect the transactions embedded value.

We firmly believe that our expectations for the ultimate intrinsic value of First Student and First Transit will be proven accurate. We anticipate the buyer – EQT, a private equity firm based in Sweden – will capture most of the intrinsic value gap we had identified. Well more than they should have.

The incredibly attractive individual characteristics of FGP led us to making it a sizable investment within our portfolio. Until recently, it was the largest investment we made since Ascendant Group. While we were unsuccessful in extracting maximum value from FGP, it

still generated one of our highest annualized returns to date – a 40.9% IRR over a 2.5-year period. This return is a testament to our sourcing process and stance on investing only when a considerable margin of safety exists.

When we reduced FGP's intrinsic value and the market value of our portfolio decreased, it narrowed the gap between the intrinsic value of our portfolio – what we think our portfolio is worth – and the market value of our portfolio to 39.3%.



The liquidation of a substantial portion of our investment stake in FGP built on the cash we had recently generated from selling our shares of Ascendant Group. This has resulted in an allocation to cash that exceeds our long run average of 21%.

This cash build has coincided with a terrible economic backdrop and a lofty valuation environment in equity and fixed income markets. Translating into our cash position remaining elevated. Fortunately, our strategy attributes combined with the history of market valuation cycles suggests our current cash position will not persist for long.

Taking Flight

We enjoy the versatility associated with curating a global portfolio that prioritizes investments in developed economies. While we have never experienced a home bias on a sustained basis – the result of finding more attractive opportunities abroad – we do make investments locally when an opportunity merits us doing so.

This year, we invested in Héroux-Devtek (HRX). HRX is headquartered in Québec and specializes in the design, development, manufacture, and repair and overhaul of landing gear, actuation systems and components for both the commercial and defense sectors of the aerospace market.

We identified HRX as an investment opportunity after completing an extensive review of the aerospace industry. During this multi-year process, we considered major original equipment manufacturers; tier one, two and three suppliers; airports; and airlines. Approaching our assessment in this manner gave us unique insights into the interrelated nature of the industry and provided us with comfort in forming a consistent set of assumptions we would operate with.

While some companies in the aerospace industry enjoy strong underlying fundamentals, few exhibited as many compelling attributes as HRX. For instance, HRX's primary product, landing gear, represents 1-2% of the cost of a plane, 7% of the weight, and, importantly, up to 20% of the long-term repair and overhaul costs.

The combination of these characteristics places landing gear in an attractive position. It represents an immaterial cost to the airplane manufacturer but is an important and recurring cost driver for their customer. This has created a set of conditions that allow HRX to realize recurring high margin revenue streams for each of their long list of landing gear platforms.

We also identified that HRX's revenues and backlog were tilted towards the defense market. And they had plans to further expand into defense by repurposing their excess manufacturing capacity in civil aviation. Since we're less certain business travel will return quickly – whereas leisure travel and defense spending appear to be more resilient – it's been an opportune time to transition the business.

Particularly in uncertain times, we much prefer companies with a strong balance sheet. HRX's sound business model has contributed to them sustaining a conservative level of financing. Today, it provides them with safety and optionality for future organic and

acquisition growth. A position most aerospace manufacturers do not enjoy at the moment.

As we stepped back, all these factors combined to create an attractive set of long-term business conditions – all while the company's valuation was being deeply discounted due to its association with aerospace.

Returning To Normal

With each passing day, life is beginning to normalize. Near our office in downtown Toronto, we are seeing the financial district become more vibrant. It's been a long year, so this is really encouraging. We hope it'll improve further this fall as more people return to the office.

We have always placed an emphasis on regularly meeting with each of our investment partners. To us, it's an important part of welcoming everyone to the firm and maintaining a heightened level of transparency throughout our partnership. For the last year, many of these meetings have taken place virtually. While these meetings have been great – they are just not the same.

During a recent visit to Vancouver, we met in person with our growing base of investment partners. It was wonderful. We're looking forward to bringing back the in-person meeting to our home city. See you soon.

Sincerely,

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[1] The disclosed performance metrics are based on a total of 55 investments managed by Talbot Babineau since December 2010 on behalf of IBV Capital's Managed Accounts ("Managed Accounts") that were fully or partially realized as of June 30, 2021. The calculation excludes investments in derivatives (i.e., currency futures and options) as well as cash and cash equivalents. Total proceeds (including realized gains, dividend income, and interest income) were above $0 on 85% or 47 of the 55 investments included in the calculation. Furthermore, the Managed Accounts earned total proceeds of $69 million and incurred total losses of $3.4 million on the 55 investments. The Managed Accounts are a composite of five discretionary accounts that Talbot Babineau has managed since December 2010. Between December 2010 and December 2013, Talbot Babineau managed the Managed Accounts while employed at KF Matheson Holdings Corp. as the vice-president of investments. During this period, Talbot Babineau was not a registrant. On September 9, 2013, IBV Capital Ltd. became registered with the OSC as a portfolio manager and an exempt market dealer and on December 12, 2013, it registered as an investment fund manager. From this point onwards, the Managed Accounts continued to be managed by Talbot Babineau but at IBV Capital Ltd. and in his capacity as a registrant. Past performance is not indicative of future results and there can be no guarantee that the Managed Accounts or IBV Capital Global Value Fund will achieve comparable results or be able to avoid losses.

[2] "IBV Capital Global Value Fund" consists of USD$ IBV Capital Global Value Fund LP Class A master series unit returns, net of fees. Inception date of this series is September 1, 2014. "Intrinsic Value" represents IBV Capital's internally calculated value for the cumulative securities within IBV Capital Global Value Fund. "MSCI World Index" is based on the USD$ returns MSCI World Free NR Index.

[3]Management and the board collectively own 0.11% of FirstGroup Plc, whereas IBV Capital owned 1.4% at the time of the transaction's announcement.