PRIMEVEST CAPITAL

Primevestfund™ Manager Report **June 2017**

This quarter marked further deterioration in values of the resource sector. In fact, since the highs at the beginning of the year, the large cap energy index is down about 25% and basic material companies like Teck Corp. and First Quantum are down almost 40%. In addition to the resource sector, a general “Sell Canada” theme proliferated through foreign investor sentiment. I’ve previously mentioned the magnitude of influence foreign capital, and particularly U.S. institutional flows, have on our small Canadian market. The difference in today’s world is that in addition to selling stocks, investors further short stocks and since the majority of trading these days is in the hand of program trading, momentum trends are further accentuated. The interesting take-away concept is that most of these trades are done on a “basket” basis without regard to any fundamental factors. As the foreign investor disappears from the buy side of the ledger to the sell side, prices decrease, liquidity dries up and then Canadian investors typically are forced to sell for a variety of reasons. For the most part, the actions at the later stages of that cycle are not based on any real fundamentals.

A few years ago, we decided to adopt a private equity mindset to the portfolio. This is a mindset that generally disregards timing of position inclusion and takes a longer time horizon than that prevailing in today’s market. As quickly as the taps turn off, the taps turn on. When the switch occurs or what the catalyst will be is always an unknown, making predictions futile. We were validated with this approach with our record return last year, following one of the most painful resource bear markets in recent history. As part of our performance attribution analysis of last year, the obvious expectation that our top conviction ideas produced the best risk adjusted returns held true. As such, and in keeping with the private equity mindset, today the portfolio is the most concentrated in the history of the Fund. This will increase volatility in the short term due to various market and company specific factors.

One of our concentrated portfolio positions and newest top oil holding fits our ideal investment criteria. It is highly undervalued, extremely high insider ownership, significant growth profile and totally below the radar screen. The oil market has been flip flopping between excitement and turmoil, focused primarily on U.S. production from a number of shale plays. With this investment we decided to take the approach of “if you can’t beat them, join them”. This Canadian public company has accumulated a number of working and operated interests in the sweet-spot of the North Dakota Bakken play, with prolific US partners like EOG Resources. As part of a $110M equity financial restructuring in which the Fund participated, the CEO personally invested $40M, and owns just under 40% from previous investments. This high-margin, high-growth asset should be able to triple production over the next 18 months. As the company is exposed to the analyst community and the investment market place, both catch up to peer multiples and multiple expansion should provide us a multi-bag return profile.

As a result of the summer months usually experiencing low liquidity, this summer may provide some high value opportunities as a result of the factors mentioned above. To take advantage of this, we have increased our cash positions from 0 to just under 15%.

At the end of the quarter, the Fund holds 14% cash and 29% in short positions.

Ryaz Shariff - Portfolio Manager, Primevestfund