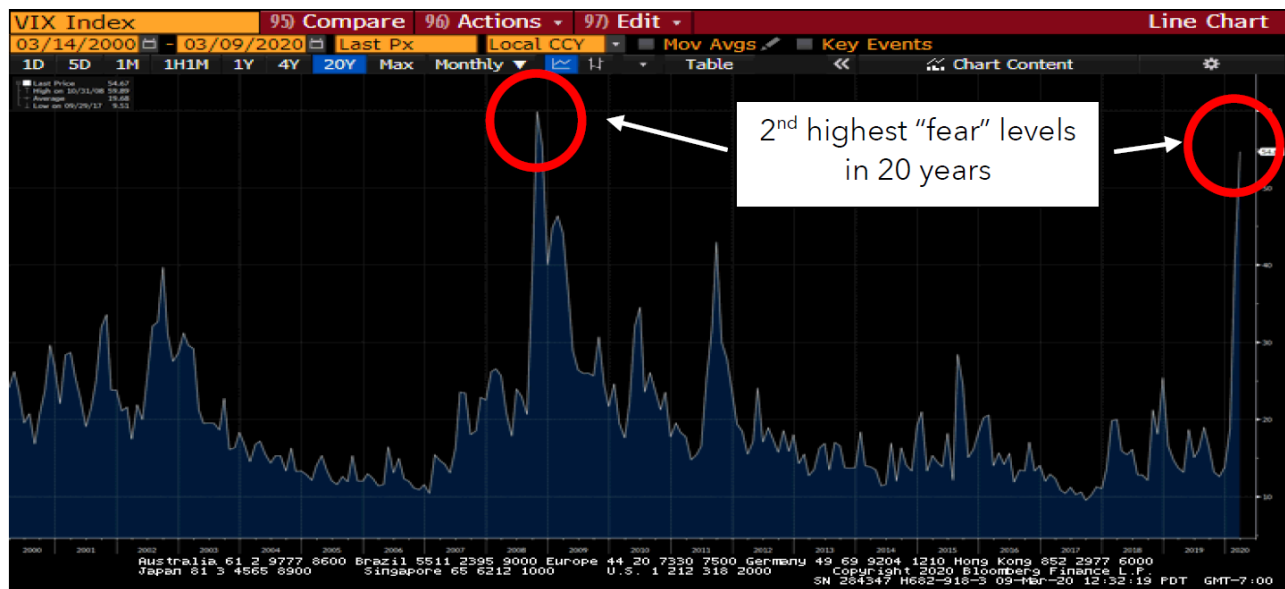


A NOTE FROM KEN O'KENNEDY
PORTFOLIO MANAGER OF THE VPI CANADIAN BALANCED POOL

RECENT MARKET VOLATILITY...OPPORTUNITY TO BUY

Our mission is to preserve and grow client capital and we do so by thinking like long-term oriented business owners. We focus on being owners of quality businesses which we believe can compound capital and we deploy capital when value is on offer from the market.

Markets are prone to volatility when the unexpected strikes and this is no exception. The coronavirus is causing uncertainty by threatening our health and the outlook for global trade and GDP. This uncertainty is translating into wide-spread fear across markets reflected in the elevated level of the VIX, which measures the market's expectations of the 30-day forward-looking volatility, commonly referred to as the "Fear Gauge." The VIX has spiked to levels we have not seen since the Global Financial Crisis.



Further, if we take a longer-term perspective, the US economy and indeed the global economy has endured many economic and political shocks over time. Despite the shocks, as outlined in the following chart, the US economy has continued to grow, driven by population growth, productivity gains and of course human innovation and ingenuity.



Historically, events such as these have provided buying opportunities; however, the process can often be drawn out, especially when an event tips the economy into a recession. As investors we need to ensure we are (a) prepared ahead of time and (b) have the correct underwriting and understanding of our businesses and potential investments to make sound capital allocation decisions.

In this light it's instructive to look at what we have done over the past year and months. Coming into February of this year, with our equities up double digits over the past 12 months, we had increased our allocation to cash, cash equivalents and fixed income by 4% (29% @ 31-DEC-2018 to 33% @ 28-FEB-2020). Since the beginning of the year we deployed significant capital into bonds (\$20M), primarily to high-quality short-term investment grade corporate bonds. In these instances, we adhered to the first principal in our dual mandate: to preserve client capital.

Over the past week we have begun deploying capital into equities on a selective basis and today we were buyers of equity, with a greater focus on quality than pure valuation. Going forward we expect to use this opportunity to improve the overall quality of the portfolio and in fact this process has already started as we are presently initiating a new position for the Pool. The new position is being funded from businesses we view as lower quality based on our qualitative (investment checklist) underwriting criteria. The focus on higher quality is to maximize our exposure to businesses and management teams we truly believe can provide long-term compounding for the Pool. Our investment history and process provide the evidence to support this—businesses with extended competitive advantage periods provide the maximum opportunity to truly compound capital over long periods of time.

In conclusion, we view the current sell-off and market environment as an opportunity to selectively improve the overall quality of our portfolio. This could well involve the sale of certain businesses in exchange for those we view as having better competitive positions, and by extension higher probabilities of compounding capital at high rates of return over our long-term investment horizon. We remain anchored to our principles and investment philosophy, enabling us to navigate a continuously uncertain future by firstly preserving capital and secondly finding opportunities to deploy capital to grow client wealth. Our perspective remains those of long-term oriented business owners and as the sign above my desk says... "keep calm and trust the process."

Ken O'Kennedy
Portfolio Manager, VPI Canadian Balanced Pool

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The complete holdings of the Pool are disclosed in its Statement of Investment Portfolio semi-annually. On a quarterly basis, the Pool discloses its top 25 holdings in its Summary of Investment Portfolio. Both these documents are available on our website at www.valuepartnersinvestments.ca. Value Partners has engaged Dixon Mitchell Investment Counsel Inc., a registered portfolio manager, to make decisions about the investments made by the Pool – these investment decisions are not made by Value Partners.

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