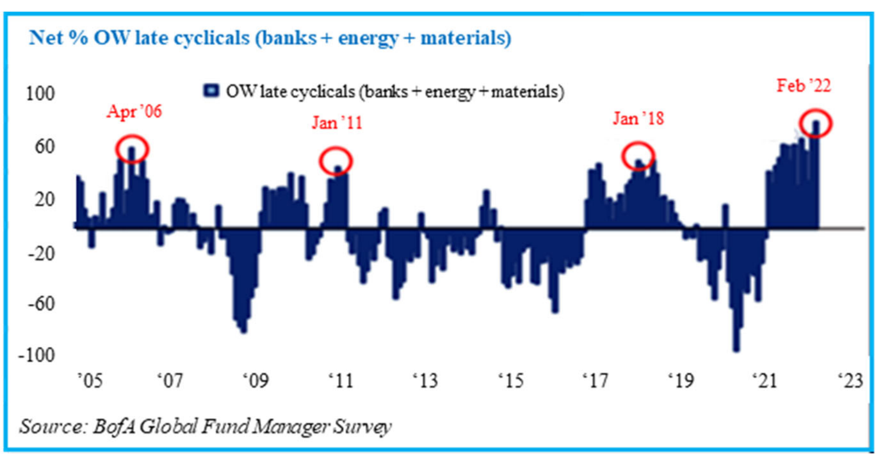
The violent sell-off in small cap continues, reminding us of the market drama of March 2020 when the market was selling off indiscriminately while the management teams of our portfolio companies reported that business was going extremely well. This correction is reflected in the February performance for the Donville Kent Capital Ideas Fund (the "Fund") (-8.74%), which is in line with the Canadian Tech Index (-9.86%).[1]

The smartest purchases are made when fear is at the peak. At the end of March 2020, we made the call that it was time for action. From there, the Fund had some of the best months of performance in our history, including our two best consecutive months (8.86% in November 2020 and 12.62% in December 2020, respectively) and finished the year up over 22%. We are now making a similar call that the correction we're in has created too great of an opportunity to ignore.

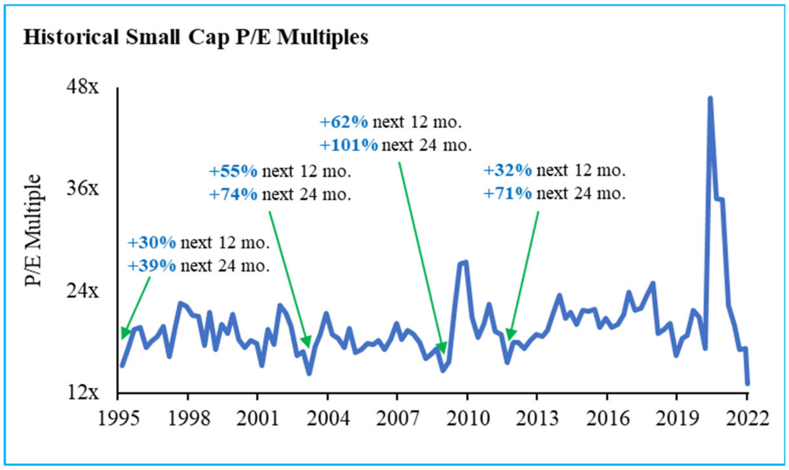
During tumultuous markets, investors seek to sell stocks and funds that aren't performing, making snap decisions based solely on changes in price as opposed to a genuine change in strategy and fundamentals. Sometimes this is a good decision but more often than not, this is an impulsive mistake. In making the decision, investors should ask themselves: Is stock performance declining due to poor business execution or something else?

Late cyclicals, such as energy, materials, and financials, are performing extremely well and are enjoying the highest investor allocations *ever*. So, what exactly does this mean? Based on investor psychology, this will likely pique investors' interest and they will pile into energy, materials, and financials with gusto, attempting to chase performance. This blindly ignores the fact that many of these companies are now trading at historically high valuations. That's exactly where these stocks get their labeling from: "cyclicals" because their revenues and profits are so heavily reliant on the cycle. Revenues and profits spike with commodity prices, and then ultimately revenues and profits tumble as the cycle plays out and commodity prices fall. Eventually, the capital that originally stampeded into these trades flows back into what is growing and cheap. And the cycle begins all over again.



[1] Time weighted rates of return as of February 28, 2021, net of fees and expenses.

It's important to emphasize that corrections like the one we're currently grappling with are where opportunities for massive performance are created. The current P/E ("price-to-earnings") for small cap companies is at the lowest level since the index was created almost three decades ago.[2]



For example, Goeasy is one of our largest investments and the stock plummeted by 70% during the pandemic sell-off. Investors without a strong understanding of the business may have hastily dumped the stock simply because the stock price declined from $79 to $23 in just a few weeks.[3] However, while Goeasy's stock was tumbling, the business was performing extremely well. Despite the pandemic, the company continued to observe a strong level of true overall payment performance. In April 2020, Goeasy collected 93% of the customer payments it would collect under normal conditions, relative to the size of its consumer loan portfolio, and by June 2020, this figure was back to 100%.[4] Plus, a lot of Goeasy's downside is insured against losses and the business was actually accelerating.

From the bottom in March 2020, **the stock would skyrocket by 830% over the next 18 months**, illustrating exactly why investors should never sell a stock based purely on a declining stock price. Today, we are seeing a similar scenario, with Goeasy's stock down by 44% from its high of $217 in September 2021.[5] During this period, the company has reported earnings that beat analysts estimates, issued a strong forecast for 2022, and increased dividends by 38% while also buying back stock. The pandemic was a stress test for Goeasy's business strategy, and it passed with flying colors. At current prices, the stock is one of the cheapest and most attractive stocks we can find. This is a prime example of "outside market forces" temporarily creating turmoil for the stock while business fundamentals remain vibrant. During this correction, we have seized the opportunity to add to our Goeasy position, as well as other stocks in similar

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[2] Based on forward P/E ratio for S&P 600. Source: Bloomberg.
[3] Bloomberg.
[4] Goeasy Q2 2020 quarterly report.
[5] Bloomberg.

situations, such as Sangoma, Converge Technology, and Nuvei. While the correction has been painful, we are poised for a solid rebound and the projected upside is massive.

As expected, the Fund's performance has corrected in line with the sell-off in small cap growth stocks, creating an unusually opportune entry point to invest in the Fund. As Q4 2021 earnings reports trickle in and as we continue our dialogue with management teams, we have updated our models and rankings. Companies such as Goeasy, Sangoma, Converge, Nuvei, Colliers, Constellation, and Topicus all reported stellar results. On average, these companies pushed revenues 59% higher and grew operating earnings by 57% during Q4 2021[6]. From our perspective, we haven't seen this many high-quality businesses at such cheap levels in over a decade (or perhaps even ever). Of course, we can't control or predict factors such as the price of oil or geopolitical events but these "outside market forces" can skew and disguise real value at times. If the underlying businesses continue to grow revenue and earnings while reinvesting in their businesses, this value certainly won't be ignored for long. The steep decline to start the year is uncomfortable but the set-up from here is the most bullish we have seen for small cap growth in decades. Small cap growth is high, profit margins are strong and valuations are at rock bottom lows. We expect a large rally to more than compensate for the rough start to 2022.

[6] Bloomberg.