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## MANAGER'S COMMENTARY – Q4 2017 – DAVID BARR

### Who is the better hockey player? Wayne Gretzky or Sidney Crosby.

Fellow Unitholders,

Since the teams I usually cheer for have demonstrated a complete inability to compete for the Stanley Cup this year, I'm left to ponder more meaningful long-term questions about the game of hockey such as, is Sidney Crosby today better than Gretzky was in his day? The fun part about this question is that we will never know. What we do know is that the game of hockey has changed a lot in the last 30 years. The skill level has increased dramatically over the years. As a result the worst players in the NHL today are significantly better than the worst players of 30 years ago and so the whole basis of competition has changed.

The same thing has happened in the money management industry. The general skill level has increased dramatically. This effectively makes it more challenging for professional active managers to outperform. Can Crosby or Ovechkin score 92 goals in a season like Gretzky did one year? Not in today's game. However, if the NHL were to expand to a 64 team league it would significantly increase the dispersion between the best players and the worst players in the league, providing a higher probability that the stars would score more points. Imagine how bad the Canucks goaltending situation would be then!

In public markets, we are witnessing the glory days of expansion that would make NHL commissioner Gary Bettman blush. Felix recently wrote about ETFs and their influence on markets. ETFs are not trying to win Stanley Cups or even puck battles. Their goal is to "not suck". Exactly the way I would play if I ended up on an NHL roster (we'll need expansion to way more than 64 teams for this to be a concern). The dispersion in skill level in public markets is now *increasing*, reversing the trend of the past few decades where the skill gap had been narrowing.

Added to this is the euphoria in the crypto-currency and cannabis sectors. Skyrocketing share prices driven by the promise of changing regulation and a changing world have captured the hearts, minds and, most importantly, the savings of the retail investor. We are seeing them come off the sidelines in a meaningful way. For the first time since the financial crisis, the desire to get rich quick is a wonderful motivator. To start the year, we actually had trading outages at two of Canada's largest banks due to massive order volumes. Consider for a second how colossal the IT infrastructure of the banks must be, and you gain a better understanding for how extraordinary these order flows must have been to take these systems down. The combination of ETF investors and the rebirth of the retail investor has shifted the competitive landscape for professional investors. We think this is a good thing.

In the meantime we are confronted with markets that are driven by these ETF investors and retail investors. We have seen this with the S&P 500 and Dow being driven to new all-time highs. The flip side is, this is creating wonderful opportunities in our small cap opportunity set. Looking at small cap indexes, the Russell 2000 was up 5.7% last year and the TSX small cap index was up 0.3% last year. Both lagged the large cap US indexes.

As always, we are finding the best opportunities not where the massive capital flows are going, but where they are coming from. Fortunately for us, our small cap universe tends to fall outside these areas where we find companies that are too small to be included in major indexes or are founder-led and lack the float requirements. In addition, we are shying away from the cannabis and crypto-currency sectors. It reminds us too much of 1999 and the internet. These are very exciting sectors, there will be some big winners and we are looking at several opportunities. However, we are patient opportunists, focused on capital preservation. We were much better off purchasing technology companies in 2003 than in 1999. Once the speculative froth had subsided, you could buy real businesses based on current operations and future prospects and not just the promise of a changing world. This experience will inform the decisions we have ahead of us in this new but similar climate.

While you may not be popular for missing or leaving a party early, you'll definitely feel better in the morning than if you had stayed until the end. As for the Gretzky-Crosby debate, I guess we'll need to see at least a 64 team league to know.

*David Barr*

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