BROADVIEW
Capital Management Inc.

October 14th, 2016

Last month's letter made two important assertions. The first was that Maxim Power Corp had begun a process to essentially put the company in run-off and eventually divest of all its operations. The second was that the Buffalo Bills season was over after only two weeks. We're happy to report that only one of those has turned out to be true. The Bills, having started the year miserably at 0-2 have now reeled off three straight wins, including shutting out the New England Patriots. The season is most decidedly back on.

More relevant to most of you is the fact that Maxim removed a major barrier towards divesting its most important asset. Just a few days after we published our letter, the company announced a settlement with the Federal Energy Regulatory Commission (or "FERC"). Maxim will pay a small fine, pieced out over three years and put this issue to bed. With an ongoing investigation, Maxim would have likely been unable to divest its U.S. operations (MUSA). Now that it has been settled, MUSA is likely to be sold sooner rather than later. It is our understanding that the sale process is already well underway.

Since the announced sale of the French subsidiary Comax on September 13th, and continuing with the FERC settlement, the stock is up nearly 25%. That move accounted for much of the Dark Horse's gain in September. Despite the run-up in price, we have not sold any stock recently and Maxim remains our largest individual holding.

The company's entire enterprise value, even after its recent strong performance, is only around $180 million. Earlier this week an article was posted on investing site *Seeking Alpha* estimating a value of C$230-$300 million for MUSA alone. While we think that may be a bit on the high end, we'd certainly take it. Even with our much more conservative estimate of MUSA's value we still see substantial upside from here thus justifying our sizeable weighting.

Somewhere between Garbage and Darling: An introduction to our newest investment

There are certain wells that traditional value investors come back to time and time again. One of those is *spin-offs*. A spin-off occurs when a larger business spins off a smaller entity to its existing shareholders. For every one share they own the shareholder gets some fraction of a share in the new, smaller entity – the *spinco*. For the company, the hope is that such a move will unlock hidden value and allow the two separate entities to trade at a combined value in excess of the parent's previous value.

Perhaps there is a sexy high-growth subsidiary that is obscured by the more mundane core business. McDonald's spinning off its Chipotle chain back in 2006 is a famous example of such a transaction. As a standalone, the spinco will attract a higher multiple, be able to access the capital markets more efficiently and be able to incent employees with stock and options in the actual company they work for. Up until the burritos started making people sick, Chipotle was an absolute beloved growth stock and exhibit "A" for what we'll call the *darling spin-off*.

Conversely, there are scenarios in which a dog of a business is dragging down the overall results of the parent company. In this case, the parent is attempting to foist the lackluster business onto its shareholder base. We refer to this type of spin-off as a *garbage barge*. Our long-time readers will remember the name Seahawk Drilling. Seahawk was a spin-off from Pride International that we invested in back in 2009. It was the garbagiest of garbage barges and was an unmitigated disaster. Thankfully we bailed well before the company went completely broke.

Regardless of what type of business is being spun, value investors like spin-offs because of the dislocation caused in the immediate aftermath of the transaction. Typically, one of the two remaining entities, usually the smaller spun-off entity, finds its way into the hands of investors who can't own it or don't really want to own it. This can be particularly acute if the spun-off business is substantially smaller and/or different than the parent. In the first few days and weeks of trading, spincos are often as popular as an open seat beside Donald Trump on a cross-country flight.

As we've talked about many times, the stock market is dominated by large pools of capital that are either passively managed (i.e. ETFs) or "actively" managed by long-only managers with very strict mandates and siloed mindsets. This is especially true of the Canadian equity market where so much capital is concentrated within a relatively small group of funds. For a passive manager, a spin-off transaction often hands the fund a small-cap company that is not included in the respective index the fund is trying to mirror or doesn't meet the market cap minimums of the mandate. As such, the spinco is immediately sold. Neither price nor value is given much consideration.

For the active long-only manager, the sell decision may simply be a matter of limited resources. Imagine Johnny Mutual Fund, manager of the Big Chartered Bank Canadian Large Cap Fund. Johnny has a 2% position in the hypothetical parent company. If the spun-off entity is, say 20% of the company, he is left with a 40 basis point position in the spinco – basically an afterthought. Johnny has 50 or 60 positions to keep track of (he's relatively concentrated for a Bank PM) and has no time to figure out a new business, particularly one that is basically a rounding error in his portfolio. Just like the ETF, he will likely punt the spinco without much thought to what it's actually worth.

As you can see, the spinco typically finds itself in the hands of unnatural owners. Enter us value investors. Wherever possible we like to put ourselves across the table from those that are selling irrationally. This is the situation we find ourselves in with our newest long position, **ECN Capital Corp (ECN:TSX)**.

ECN is a spin-off from Element Financial Corp., now known as **Element Fleet Management Corp (EFN:TSX)**. Element, the brainchild of Steve Hudson, has been a very successful public company since going public in 2011. Mr. Hudson and his team have recreated many of the successful attributes of his first financing company, Newcourt Credit Group, while so far avoiding the major mistakes that forced Newcourt to sell itself in 1999.

Hudson is taking over the smaller commercial finance business, ECN Capital, while his long-time colleague, Brad Nullmeyer, will be CEO of the larger, more mundane Fleet Management business. The Fleet business seems to be what most institutional investors want to own given its size, simplicity and, perhaps most important to the masses, its ability to pay dividends. You may not be too shocked by this, but we're intrigued by the somewhat more idiosyncratic ECN business. Commercial finance is a business we know well having been shareholders of CIT Group. Also referred to as non-bank lending, commercial finance can be a high return business as long as the business stays focused in the right niches and properly matches its liabilities with its asset base.

Earlier, we characterized spincos in two distinct camps – the *darling spinco*, such as Chipotle, and the *garbage barge*, such as that stupid Seahawk thing. ECN lies somewhere between the two. It has some grab bag-like characteristics to it which clouded Element's Fleet business. In our opinion, however, nothing within the grab bag would be properly characterized as garbage. ECN's existing portfolios, though somewhat varied, are intriguing assets that may just require some additional scale and more intense management to drive more acceptable returns. In addition, ECN exits Element with a relatively clean balance sheet. Your standard garbage barge is often saddled with a huge amount of debt or other liabilities.

The spin-off of ECN was completed on October 4th. For the first few days of trading it appeared that the typical spinco puke-out[1] would be avoided as the stock held around the $3.50 range. Thankfully (for us that is) the stock recently cracked. This move downwards seemed to instigate a cascade of selling, bringing the price down to the $3.00 range. Likely some of the active managers were holding onto the stock as long as it performed well and booted it at the first sign of trouble. It is around these levels that we see great value in ECN. With a book value of approximately $4.40, the stock is trading at a very garbage-y discount.

The standard value investor approach would be to wait for the spinco to get hammered, take a position and then sell it as it approaches some conservative estimate of value. In this case our estimate of run-off value would be somewhere in the high $3s. Investing in ECN at these levels should allow for meaningful appreciation as the gap between the current trading range and fair value closes. In addition, we believe there is another leg of material upside above and beyond mere liquidation value.

What's very intriguing about ECN is that we believe it can, in very short order, transform from a stock trading at a deep discount to run-off value to one that trades at a meaningful premium to book value. In doing so, it can graduate from *garbage* to *darling*. While Mr. Hudson has toned down some of the brashness and bravado that made him famous in the 90's, he still remains a force when it comes to consummating deals and promoting his company. In our view, he is one of the most valuable assets included in the spinco and he will be instrumental in elevating the stock from its current doldrums.

ECN is a platform which Hudson and his team can use to restart Element's deal engine. It is these acquisition-driven stories that investors simply can't get enough of. It is also this sort of growth that led to Element's runaway success as a public company. Once ECN proves it can buy new portfolios and begin growing via acquisitions we will likely see a huge transformation in how the Street views the company. It will go from spun-off afterthought to the "Next" Element or Element 2.0. The "Next" anything or anything 2.0 doesn't typically trade below book value for long.

As our regular readers know, we typically avoid acquisition-fueled growth stories and in fact are more prone to consider such high-fliers as short candidates rather than jumping onboard with the masses. This is why we erroneously avoided Element in its first incarnation. As we become more seasoned and grizzled, we realize the value of occasional pragmatism mixed in with our typically more dogmatic approach. Having seen how Element played out the first time, we would look to at least capture some of the benefit once the Element 2.0 hype machine kicks into full gear. Dogma would say avoid all acquisition-driven stories based on principle, while pragmatism would say, "Let's just see how this plays out first".

If, on the other hand, Hudson is unable to generate momentum behind the growth model, we are confident he will not issue dilutive equity and will find a way to, at a minimum, realize book value at some point. This is the downside case and one we are very comfortable with. In either scenario, we are convinced we will do well given our entry point – an entry point we have those blindly selling the stock to thank for.

Until next month,

Anthony Hammill Lee Matheson

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[1] Not a Chipotle reference.

Series	August 31, 2016	September 30, 2016	Monthly Return	YTD Return	Annualized Return Since Inception (April 3, 2009)
Master – Class A	$245.82	$247.89	0.84%	3.05%	12.9%
Series 5 - June 2015 – Class A	$245.66	$247.72	0.84%	3.09%	
Series 1 - Feb 2016 – Class A	$243.25	$245.29	0.84%	6.59%	
Series 2 – Mar 2016 – Class A	$243.48	$245.53	0.84%	5.98%	
Series 3 – Apr 2016 – Class A	$245.57	$247.64	0.84%	2.66%	
Series 4 – May 2016 – Class A	$245.82	$247.90	0.84%	1.90%	
Series 5 – June 2016 – Class A	$245.64	$247.71	0.84%	2.05%	
Series 6 – July 2016 – Class A	$245.66	$247.91	0.92%	1.09%	
Series 7 – Aug 2016 – Class A	$245.42	$247.89	1.01%	0.53%	

**From inception return used for series launched during the year*

All numbers reported after fees and expenses. See subscription confirmations for your Series.

About Broadview Capital Management Inc. and the Broadview Dark Horse LP:

Broadview is the manager of the Broadview Dark Horse LP ("The Dark Horse"), a fundamental-based long/short investment partnership. Broadview utilizes its relatively small size, contrarian nature and willingness to perform extensive due diligence to deliver strong risk-adjusted returns for its investors. The managers concentrate on going where others can't or won't to find investment opportunities.

The firm is run with the philosophy that it will manage "as much money as it deserves to manage" and that a dedication to working hard for existing clients is the best way to grow the business in a sustainable fashion. It is not Broadview's intention to take on additional investment mandates for the foreseeable future beyond the Dark Horse LP. Broadview was founded in October of 2008 and the Dark Horse was launched in April of 2009.

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