BROADVIEW
Capital Management Inc.

March 15th, 2017

What's the hardest thing about being someone who just started training for a triathlon, recently stopped eating gluten and just cancelled their cable subscription? Trying to figure out what to bring up in conversation first. We approach this letter with a similar level of giddy impatience.

After a frustrating run where nearly nothing went right for the fund, February brought us a veritable cornucopia of good news. We enjoyed major contributions from positions both old and new, as well as both long and short. The takeover of long-term holding **RDM Corp. (RC:TSX)** we spoke about in last month's letter was only the third largest contributor. Its gains were surpassed by those of two relatively new holdings, **ECN Capital (ECN:TSX)** and **Hudson's Bay Company (HBC:TSX)**. ECN's stock jumped higher on news that the company will divest its U.S. commercial and vendor finance business at a sizeable premium to book value[1], while HBC moved on speculation of a potential merger with Macy's Inc. The buzz around a merger, along with news that a noted U.S. real estate investor had taken a major stake in the company, brought attention to the unrealized value of the company's real estate portfolio. These hard assets are the basis for our investment in the company, as opposed to us making a call on the health of the underlying department store business.

In addition, **Halogen Software Inc. (HGN:TSX)**, a position we only recently initiated, spiked on the news that the company was being acquired at a decent premium. **Performance Sports Group (PSGLQ:OTC)**, which is the bankrupt company we hinted at last month, saw its shares rally as investors seemed to realize just how much cash will be left over for equity holders now that the sale of the company's assets has been completed. Finally, the markets took a pause from the FOMO/TINA/ETF/DJT/WTF rally which ensured that the fund's shorts weren't a drag on performance. In fact, the short book provided a couple of decent-sized absolute wins.

The past month represented the great catchup for the Dark Horse and something we have seen numerous times, in some variation, over our 96 months of managing this fund. The market rallies, our fund does nothing…until it eventually does. This go-around was a bit different as it dragged on for much longer than previous bouts of underperformance. We are relieved that we can report to you that this pattern appears to have repeated itself once again with February seemingly marking the end of the winter of our (and your) discontent with, hopefully, more good news on the way.

Speaking of winter…

Anthony's Waterloo: One Man's Battle with Mother Nature

Anthony has a few passions – his kids, work, the Buffalo Bills (order has been randomized to not offend clients or family). Currently, his one *true* passion may be his backyard skating rink. On most winter evenings and weekends you can find him tending to his 20' x 22' baby, known affectionately as the

[1] You can read our ECN thesis in detail in our November 2016 letter.

Hammill Centre.   Filling, flooding, scraping, smoothing, shoveling, hoping and praying. This is to say nothing of the sledgehammering, nailing, screwing, leveling, tarp-laying, stapling, boarding, raccoon-shooing and arguing with his Dad/foreman that went into the actual construction of the thing.

Back in late January, with the temperature approaching double-digits[2], Anthony stared out at his Waterloo. At this point, the Hammill Centre amounted to nothing more than a really shitty swimming pool. Given the warmer than usual weather, the ratio of time spent building and maintaining to actual skating and shinny was conservatively, 12 to 1. Friends and neighbours mocked him for his fruitless pursuit of a solid and skateable frozen block, weather forecasts be damned. Yet there he was, hose in hand and faith in heart convinced that his toil would not be in vain.

Just a few kilometers away in Leslieveille, the ratio of input to output for the Broadview Dark Horse LP looked very similar. The two co-managers had been scouring, modelling, reading, interviewing, screening, hoping and praying with nothing to show for it. The market kept going higher while the fund languished. Why not just go buy a bunch of oil and bank stocks? Can't you guys read the market forecasts? Yet there Lee and Anthony were, annual reports in hand and faith that the Broadview investment process would eventually turn things around.

Fast forward a few weeks to the present time. It's amazing the difference a late-Winter cold snap and a run of positive corporate announcements can make.

Today is the second day of March Break here in Toronto. It is miserably cold and snowy. Today, Anthony's kids are skating on the rink and out of their mother's hair. The nearly countless hours of literally watching ice freeze have produced some reward. Today, we present to you an update that the fund was up nearly 5% in one month. Our short-term performance has been upgraded from "incompetent" to "passable", with the possibility of something more in line with our stellar long-term performance on the horizon. The improvement has been due to our consistent approach combined with a healthy dose of mean reversion. The parallels may not be entirely precise, but they do exist. In both cases, persistence – when directed properly – has been a virtue.

To finish, we would like to share with you a bit of a public service announcement. Occasionally we like to call attention to areas of silliness in certain asset classes. There are behaviours we see every now and again that need to be called out. While we may have no dog in the specific fight, there are instances where we feel we must warn our readers to steer clear.   Our track record on these calls (Congolese potash, gold in '09/'10, healthcare roll-ups, Bay Street promotes) is pretty good so you may want to at least read to the end. Even if you don't really care, there's a funny picture and plenty of 80's TV references.

Despite what real estate agents say in papers heavily reliant on their advertising dollars, Toronto residential real estate is in a dangerous bubble and those caught up in it will suffer greatly. At the end of the day, there must be some connection between what housing costs and what the buyers of that housing can actually afford. That connection is broken and has been for some time. While this disconnect can persist based on irrational non-economic factors, eventually there will be a reckoning.

Instead of berating you with a mountain of data and precedents to back up our assertion we will stick with two anecdotes that, when combined, should provide more than sufficient evidence that peak Toronto real estate is upon us.

The first anecdote is the number $4.2 million. Think back to when you were a kid and imagine what a $4.2 million house looked like. It would be as if a developer bought Richie Rich's house, added the indoor train from *Silver Spoons* and then moved the whole place on top of Mr. Drummond's penthouse.

[2] That would be the 50's Fahrenheit for you Americans.

There would be multiple elevators, indoor waterslides and robots…lots and lots of robots. Heck, you could ask someone who, unlike the writer, was a kid only a couple years ago and they would probably envision a sprawling country estate or a multi-level condo in the most desirable part of Manhattan.

In Toronto, $4.2 million gets you a new-build in Leaside on a treeless 34 foot lot, or so says a recent listing. Now we have nothing at all against Leaside (in fact, it's the home to the aforementioned Hammill Centre) but nothing in that neighbourhood is worth anywhere close to $4 million. Up until recently, you would be hard-pressed to pay that much for any two homes in the mid-town family-friendly area. As an illustration of life in Leaside we would point to the fact that the community's most popular restaurant is called *McSorley's*, has menus you can colour on and gives out free peanuts. This small pocket of what is technically East York has not exactly been a prototypical destination for Russian oligarchs, Chinese industrialists or chartered bank CEOs, yet the horrendously aspirational price indicates that's who the buyer will be. Desperation, enormous idle wealth or money laundering are the only justifications for such a number.

Our second anecdote is a photo.

Where do we even start with this?

We believe it was Mark Twain who once said, "If a man with a pencil beard is providing you any sort of financial advice, do the opposite." Whether he's telling you to shake something, drink something or buy something, Pitbull does not have your best interests at heart. Infomercial Icon and Professional Eye contact-maker, Tony Robbins doesn't either.

The thoughts circling their respective shaven and enormous heads are purely around separating you from your money. They are selling you garbage advice and horrific music[3]. As signs of a massive real estate bubbles go, their joint appearance at a "how to make money in real estate" convention could only be topped if the event was being held at Trump University. Our well-intentioned advice is this: Don't pay $4 million for a house without a lot of robots or a helipad and skip the Real Estate Wealth

[3] Ed. Note: the opinions on Pitbull's music are Mr. Hammill's alone and not those of Broadview Capital Management or the Broadview Dark Horse LP. He is knowingly doubling down on his Pitbull bashing despite the surprising backlash to his previous comments on the topic.

Expo. Avoid Toronto real estate until normalcy returns. Those getting in now are, unlike the Hammill kids, skating on very thin ice.

Until next month,

Anthony Hammill   Lee Matheson

Series	January 31, 2017	February 28, 2017	Monthly Return	YTD Return	Annualized Return Since Inception (April 3, 2009)
Master – Class A	$231.90	$242.92	4.75%	3.26%	11.9%
Series 5 - June 2015 – Class A	$231.66	$242.66	4.75%	3.26%	
Series 1 - Feb 2016 – Class A	$231.93	$241.74	4.23%	2.75%	
Series 2 – Mar 2016 – Class A	$231.93	$241.97	4.33%	2.85%	
Series 3 – Apr 2016 – Class A	$231.91	$242.92	4.75%	3.26%	
Series 4 – May 2016 – Class A	$231.81	$242.82	4.75%	3.26%	
Series 5 – June 2016 – Class A	$231.91	$242.92	4.75%	3.26%	
Series 6 – July 2016 – Class A	$231.62	$242.62	4.75%	3.26%	
Series 7 – Aug 2016 – Class A	$231.39	$242.38	4.75%	3.26%	
Series 8 – Nov 2016 – Class A	$231.49	$242.48	4.75%	3.26%	
Series 9 – Dec 2016 – Class A	$231.90	$242.62	4.62%	3.14%	
Series 10 – Feb 2017 – Class A	$231.90	$242.62	3.73%	3.73%	

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

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

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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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