



May 15<sup>th</sup>, 2016

April saw a continuation of what we've seen since mid-January – markets moving persistently higher with particular strength in resource stocks and heavily-shortened issuers. The great short squeeze has become the great catch-up trade with investors scrambling to keep pace with indices that, particularly here in Canada, have left most lagging. The strength doesn't appear to be fundamentally based as earnings seem middling at best and multiples don't strike us as especially appealing. Cheap money and desperate buying seem to be the most predominant causes of the rally of 2016 – hardly the pillars of something sustainable.

The Dark Horse was up a bit on the month and is now back to positive on the year having made up the uncharacteristic drawdown from January. There were no notable movements, either up or down in the month. We have made a handful of changes within the portfolio but have not materially changed exposures. We exited our long-held position in Enercare (ECI:TSX). The company had recently announced a substantial acquisition. The acquired company has no obvious operating synergies, it is based in the U.S. whereas Enercare's existing operations are all in Canada. Most troubling was that the acquisition was made at a very rich multiple. While the deal may end up being technically accretive we do not feel that it will create much in the way of shareholder value from here. This is not to say the stock won't go up, just that Enercare, at this price and after this acquisition, no longer fits the definition of a "Broadview" stock.

We are in the business of owning assets and cash flow streams that are trading at fundamentally less than they are worth to objective, sophisticated private buyers. This used to be the case for Enercare, but no longer is. To own the stock now, an investor is banking on acquisitions to drive growth as there is no longer a meaningful delta between the market value and private market value. We are not in the business of making such bets and have moved on.

#### **When a hedge is not a hedge: Portfolio Management 101**

We have, and will likely always, maintain a short position in a Canadian small cap index (or some mirror instrument). We do this to hedge our long book against widespread sell-offs of the asset class. As you know, our long book is primarily comprised of nuanced special situations that should succeed (or fail) based on specific catalysts regardless of overall market direction. That being said, at enhanced levels of mass buying or panicked selling, there will be some knock-on impact to our long positions. Such sell-offs have occurred frequently, even during the post 2009 global equity bull market run (late spring of 2011, fall of 2014 and pretty much all of 2015). During these periods these small cap index hedges have served us well.

Conversely, the worst month in our history was August of 2011 when the hedge did not properly hedge. A big part of that mishap was that our shorts didn't help us at all as our longs were getting crushed. There was, in retrospect, a disconnect between what was represented within the index and what we were long. Such a disconnect creates a situation that is not a hedge, it is in fact an unhedged short. The

Canadian small-cap index has, both in 2011 and today, a meaningful exposure to precious metals companies, primarily gold producers. We have never been, and will likely not ever be, long gold companies. By being short these indexes we have, therefore, been short gold. This leaves us exposed to large movements in the price of gold and the producers of the prized metal.

For much of our history we have been okay with this. Earlier this year we surveyed the investment landscape and came to the realization that very little of what was happening from a macro point of view - be it QE, Chinese market manipulation, negative interest rates, the return of Jon Snow etc. - made much sense to us. In a world where nothing makes any sense, maybe the case for owning gold actually did, or so went our thinking. Perhaps the gold bugs, for all their lunacy, may have another day in the sun.

Given our new found (and admittedly temporary) thesis that gold could ratchet higher and bring an audience to gold stocks once again, we decided to take a long position in an ETF of small-cap gold producers. This was done as a proportional hedge to the unhedged short position that we were no longer comfortable assuming.

That trade has been a very good one for us. It has saved our investors a good deal of discomfort that would have been caused by the rise in gold prices and the commensurate explosion in the prices of gold miners, particularly the small and mid-sized producers. Now, in retrospect we should have not only covered our short exposure to the sector but gone net long golds. That's a bit of a revisionist interpretation. To be clear, our thesis was that given all of the instability and bizarre volatility the world over, the case for gold *could* actually play out not that it *would* play out. For us, "could" means don't make a bet either way. We require something closer to a belief in "would" before knowingly adding exposure.

Just the other day, we read about a brokerage firm moving a panel discussion of gold company CEOs from one of its conference rooms to a larger space in the nearby Drumpf Hotel given such rabid demand from buy-side accounts. Even with the move to the larger venue, we expect the meeting could still be standing room only. Just six months ago we would likely have received calls from our salesperson begging us to take a meeting so the brokerage could save face<sup>1</sup>. Clearly the gold trade is most likely approaching its peak. There is no better contrarian indicator than having "investors" and "standing room only" in the same sentence.

#### **"The Impossible has happened!": Final Thoughts on it never being too late**

Spring has finally come to the GTA and that brings a smile to all of our faces. If you're still looking for a "pick me up" please watch the following video.

<http://m.mlb.com/video/topic/29387502/v669453283/nymsd-colon-launches-a-blast-for-first-career-homer>

Bartolo Colon, the subject of the video, is a 42 year old major league pitcher who last weekend hit his very first homerun. The image of the rather abundant Mr. Colon trotting around the bases for the first time in his 20 year career is a joyous one, made even better by the unbridled enthusiasm of fans, his teammates and the announcers. If that clip doesn't bring even a smirk to your face, you, dear reader, are made of stone.

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<sup>1</sup> As an account that doesn't trade much and never participates in new issues, we aren't particularly popular with Bay Street firms. As such, we are occasionally willing to act as seat fillers to ensure we retain some access to the sell-side if, and when, we ever need them.

While we could surely weave the tale of Bartolo into some metaphor about how it's never too late to achieve something new or add something to your repertoire, we're not going to bother you with that. For a change, we've simply decided to share something frivolous and silly with our readers. While there's certainly more than enough to rage about – housing bubbles, analyst notes that don't call out how terrible Alaris' numbers were, the whole Trump thing – sometimes it's nice to just sit back and watch a corpulent man in his 40s circling the bases.

Until next month,

Anthony Hammill

Lee Matheson

Series	March 31, 2016	April 30, 2016	Monthly Return	YTD Return	Annualized Return Since Inception (April 3, 2009)
<b>Master – Class A</b>	\$241.2253	\$243.2748	0.85%	1.13%	13.4%
<b>Series 5 - June 2015 – Class A</b>	\$240.9752	\$243.1159	0.89%	1.17%	
<b>Series 1 - Feb 2016 – Class A</b>	\$238.9719	\$240.7451	0.74%	4.61%	
<b>Series 2 – Mar 2016 – Class A</b>	\$239.1995	\$240.9751	0.74%	4.01%	
<b>Series 3 – Apr 2016 – Class A</b>	\$241.2253	\$243.0202	0.74%	0.74%	

*\*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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