

# LIGHTWATER

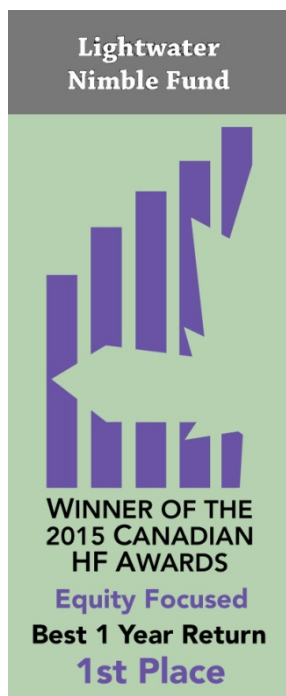
— PARTNERS LTD —

## The Canadian Mid-Cap Specialists

### The Lightwater Long / Short Fund

### The Nimble Fund

Winner of the 2015 Canadian HF Awards  
1st Place  
Best 1 Year return, Equity Focused



## Disclaimer

THIS IS NOT AN OFFERING OR THE SOLICITATION OF AN OFFER TO PURCHASE AN INTEREST IN LIGHTWATER LONG SHORT FUND OR LIGHTWATER NIMBLE FUND (THE "FUNDS"). ANY SUCH OFFER OR SOLICITATION WILL BE MADE TO QUALIFIED INVESTORS ONLY BY MEANS OF A FINAL OFFERING MEMORANDUM AND ONLY IN THOSE JURISDICTIONS WHERE PERMITTED BY LAW.

AN INVESTMENT IN THE FUNDS IS SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK. OPPORTUNITIES FOR WITHDRAWAL/REDEMPTION AND TRANSFERABILITY OF INTERESTS ARE RESTRICTED, SO INVESTORS MAY NOT HAVE ACCESS TO CAPITAL WHEN IT IS NEEDED. THERE IS NO SECONDARY MARKET FOR THE INTERESTS AND NONE IS EXPECTED TO DEVELOP.

THE FEES AND EXPENSES CHARGED IN CONNECTION WITH THIS INVESTMENT MAY BE HIGHER THAN THE FEES AND EXPENSES OF OTHER INVESTMENT ALTERNATIVES AND MAY OFFSET PROFITS. THERE IS NO GUARANTEE THAT THE INVESTMENT OBJECTIVE WILL BE ACHIEVED. MOREOVER, THE PAST PERFORMANCE OF THE INVESTMENT TEAM SHOULD NOT BE CONSTRUED AS AN INDICATOR OF FUTURE PERFORMANCE.

# Our Competitive Edge

## Mid-Caps - Attractive Niche in Canada

- Mid-caps are typically inefficiently priced; attractive risk/return profile.
- Focus on “un-crowded” companies; stocks that few Analysts cover.
- Persistent and repeatable opportunities in mid-caps
- Over 20% of Canadian mid-caps have no Analyst coverage

**Canadian Stocks by Segment**

	<b>Market Capitalization</b>	<b># Listed Companies</b>	<b>% of Listed Companies</b>
<b>Small Cap</b>	<\$200m	2,744	82.0%
<b>Mid-Cap</b>	\$200m - \$2.5bn	450	13.4%
<b>Large Cap</b>	>\$2.5bn	152	4.5%
<b>Cdn. Total</b>		3,346	100.0%

*source: Bloomberg; data as of 17 September 2014*

## Our Competitive Edge

### Capitalize on the Inefficiency of Canadian Mid-Cap Market

- Canadian Mid-Cap Equity Focus
- Pair Trades
- Stocks with Little or No Research Coverage
- Avoid Herd Mentality

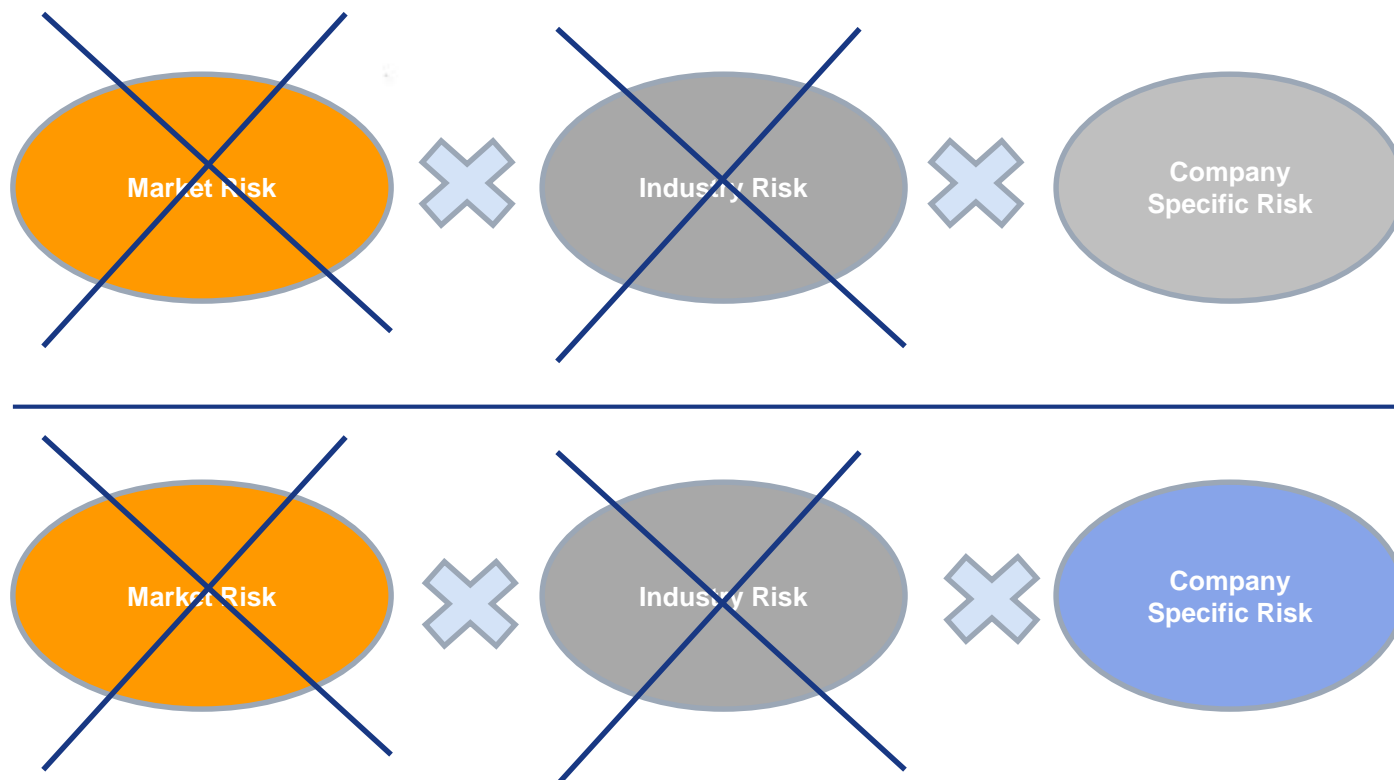
## Canada is Ripe with Short Selling Opportunities

- Canada is the Pollyanna of the hedge fund world: we have the most BUY recommendations, the least SELLS, and the highest average consensus Bloomberg. <sup>1</sup>
- Interests of sell-side brokerages aligned with issuers and long-only mutual fund companies; Canadian HFs are small relatively.
- Inefficient market breeds opportunities.
- Lightwater uses its short book to earn profits on an absolute basis; not just for hedging.

<sup>1</sup> Source: Bloomberg, data as of 17 September 2014. Global comparisons based on data from Canada, USA, Australia, U.K., and Switzerland

# Pair Trades : A More Precise Way to Invest.

## Helps to Reduce 2 of 3 Major Risks in Stocks



# Two Fund Offerings

## Lightwater Long / Short Fund

- **Fund Performs Well in Flat to Bearish Markets** (returned 4% in 2008)
- **Low correlation with TSX Index** (0.23 since inception)
- **Exhibited 2/3 volatility of TSX Index**
- **20 Pair Trades; Maximum of 40 positions in the portfolio**
- **Hedging at all Times**
- **Avg. Net Market Exposure: 25% to 35%** (currently 15%)
- **High Cash Position** (65% to 75% usually; currently 85%)
- **Liquid Portfolio** (no private companies; 30 day withdrawal notice)
- **11 year track record**

# Two Fund Offerings

## The Nimble Fund

- **Fund Performs Well in Flat to Bearish Markets**
- **Uncorrelation with TSX Index** (0.01 since inception)
- **Best Idea of Pair Trades from main fund; Maximum of 20 positions**
- **Hedging at all Times**
- **14% annualized return since inception despite taking less risk than the market** (currently 35% net market risk).
- **Liquid Portfolio** (no private companies; 30 day withdrawal notice)
- **5.5 year track record**

. \* Nimble Fund inception March 4, 2013.

\* \* Performance figures are as of October 31<sup>st</sup> 2018 and are net of all fees and expenses.



# Strategy has Delivered Performance

## Lightwater Long / Short Fund

- **4.3%** annualized return over past 5 years (vs. 2.4% for TSX index)
- **23.4%** cumulative return over past 5 years (vs. 12.5% for TSX index)

## The Nimble Fund

- **14.6%** annualized return since inception (vs. 2.8% for TSX index)
- **116.3%** cumulative return since inception (vs. 17.2% for TSX index)

\* Nimble Fund inception March 4, 2013.

\*\* Performance figures are as of October 31<sup>st</sup> 2018 and are net of all fees and expenses.

## Low Correlation / Positive Market Capture

### Low Correlation to the index in the Cdn Hedge fund Universe

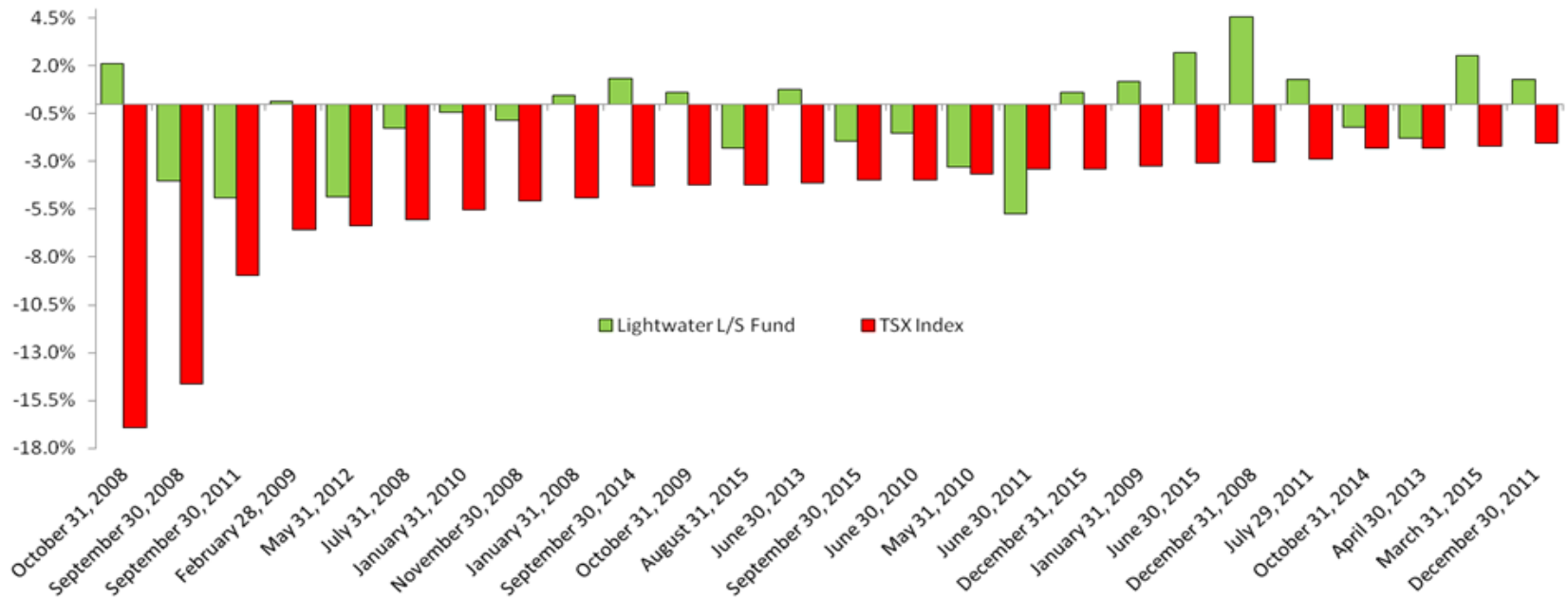
- Lightwater L/S 0.216 Correlation with TSX Composite
- Nimble 0.012 Correlation with TSX Composite

### Positive Upside Capture / Negative Downside Capture

- Positive performance in the worst markets 2008, 2015, Jan/Feb 2016
- Lightwater Long Short Fund
  - Upside Market Capture Ratio 0.5574 (we capture 55% of up market)
  - Downside Market Capture Ratio 0.3077 (we capture 30% of down market)
- The Nimble Fund
  - Upside Market Capture Ratio: 1.5088 (means we make more than the market in up markets)
  - Downside Market Capture Ratio: -0.9041 (means we make money in a down market)

# Historical Downside Performance

- Since inception in January 2008 the TSX Index had 29 months with a decline of -2% or greater.
- Of the 29 most negative months, the fund has outperformed for 28 and was positive for 14.
- The biggest decline was -16.93% in Oct. 2008 while the Long Short Fund gained +2.11%.
- The TSX index declined an average of -5.06% while the Lightwater Long Short Fund has only declined an average of -0.60%.



## Summary of Lightwater Funds

- **Favorite Market Conditions: Bearish to Flat Markets**
- **Focus on Inefficiency of Cdn. Mid-Caps Stocks**
- **Low Correlation to TSX** (0.012, 0.22)
- **Lower Volatility** (2/3 of TSX in L/S Fund)
- **Hedged at All Times**
- **Low Net Market Exposure** (25% to 35% typically; 15% now)
- **High Cash Positions** (65% to 75% typically; 85% now)
- **Liquid Portfolio** (no private companies)

## Case Studies

### Fundamental Research vs. Technical Analysis

- Cineplex (CGX) / Cinemark (CNK)
- Guardian Capital (GCG.A) / Bank of Montreal (BMO)
- Valeant / Bausch Health (VRX) Short
- Electrovaya (EFL) Short
- Tucows (TC) Long
- David's Tea (DTEA) Short
- Reitmans (RET.A)

## Pair Trade: Short Cineplex (CGX-TSX) vs. Long Cinemark (CNK-NYSE)

- **'Herd Mentality' Stock.** Cineplex is 'over-owned' by Canadian funds.
- **Scarcity Premium.** Expensive in absolute and relative terms vs. US peers; Cineplex is trading at twice the valuation of Cinemark
- **Hedging Industry Risks.** Box office or industry-specific risk is hedged out as both companies basically show the same movies.



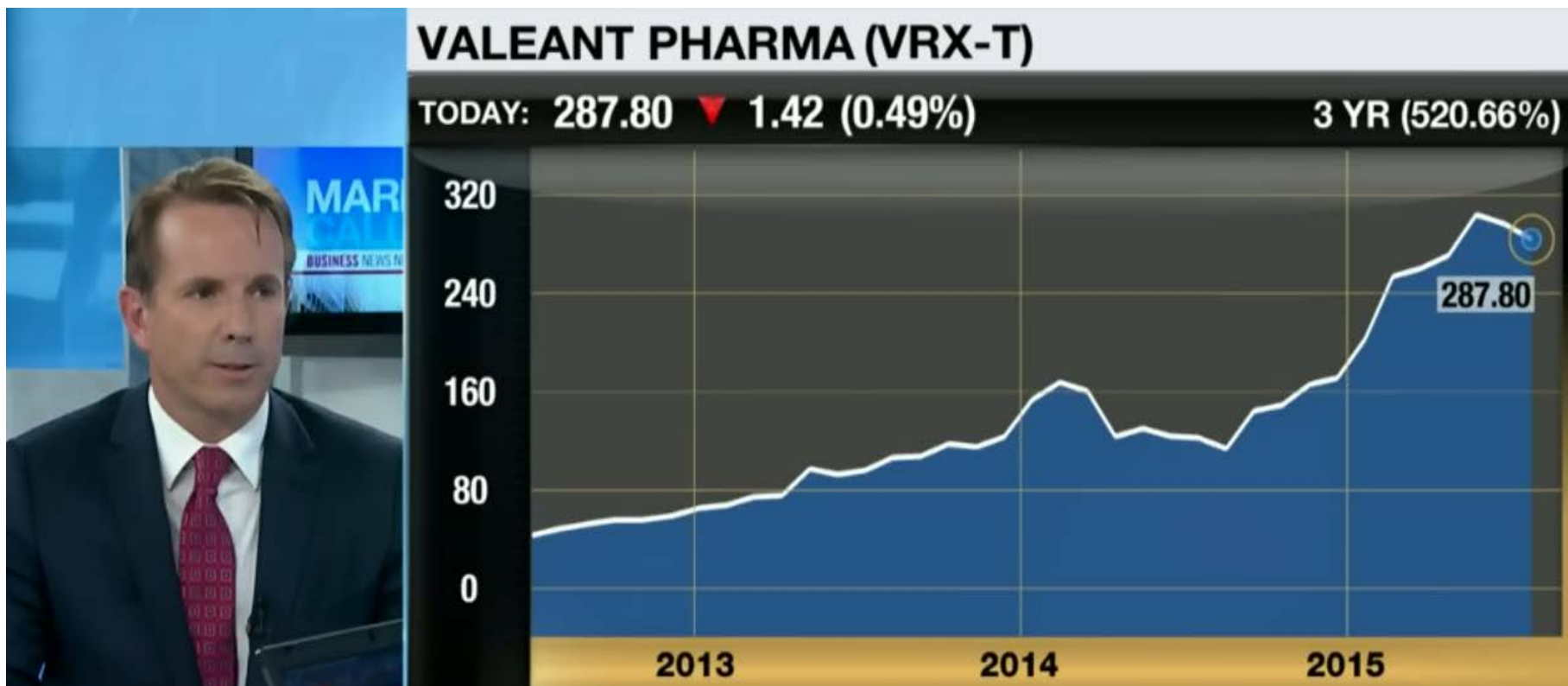
## Pair Trade: Long Guardian Capital (GCG.A) vs. Short Bank of Montreal

- **Long-Term Horizon:** our longest held pair trade; since June 2009.
- **Indirect BMO Play:** Guardian holds 3.7 million shares of BMO; its investment portfolio is worth more than GCG's market cap.
- **Very Cheap:** if we strip out the value of investment portfolio, the company trades at extremely cheap multiples.
- **Free Optionality:** investors effectively get the remaining underlying asset mgmt, fund administration, and private wealth businesses for free.



## SHORT: Valeant (VRX)

“Bill Ackman is a Lot Smarter and Richer Than You.”





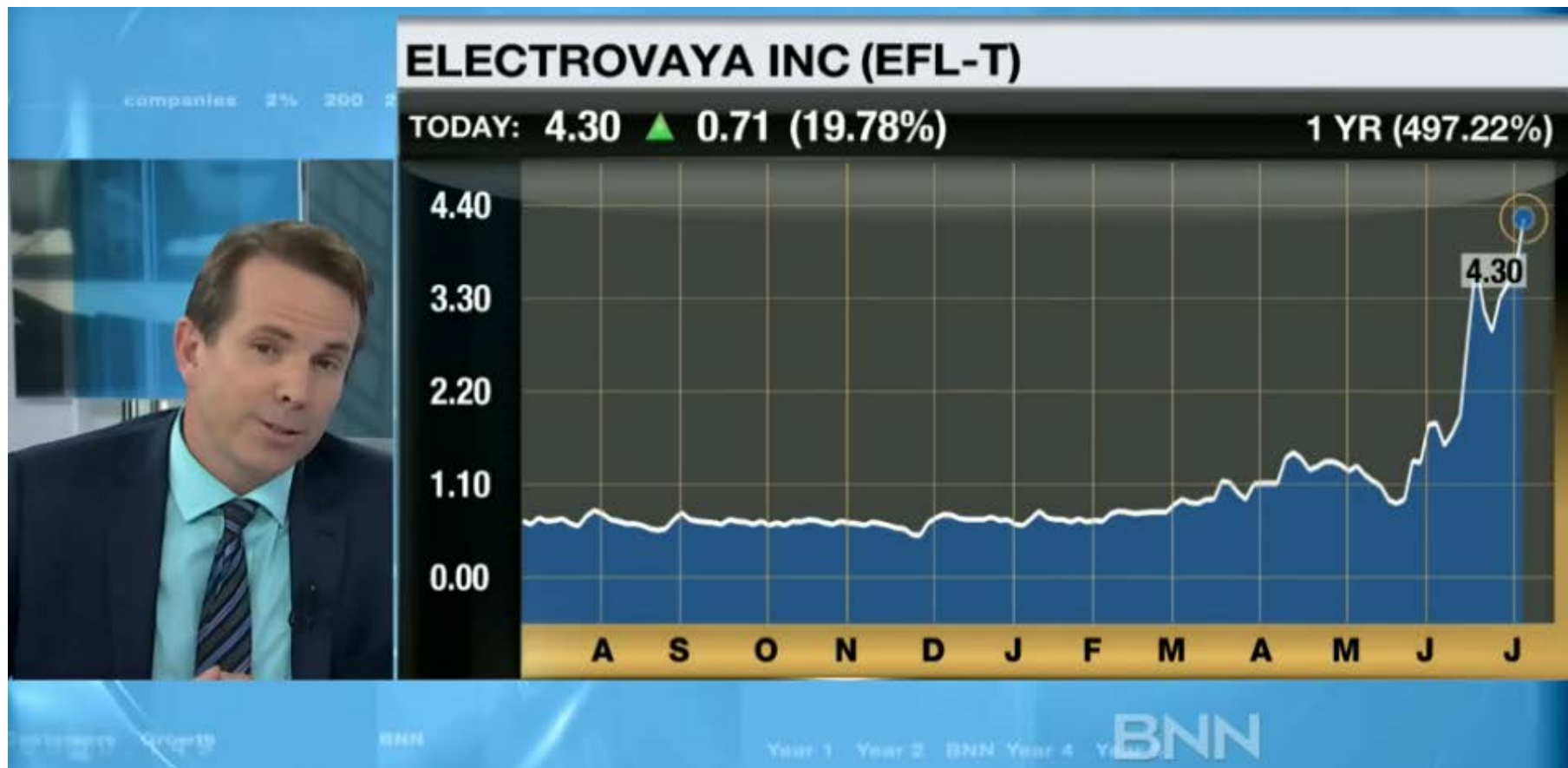
## SHORT: Valeant (VRX)

- **Canada is a Momentum Market.**
- **Valeant , Nortel, Potash Corp:** all examples of 'me too' investment style that dominates the largest players.
- **Valeant Top Pick as a SHORT on BNN Market Call, 8 July 2015**



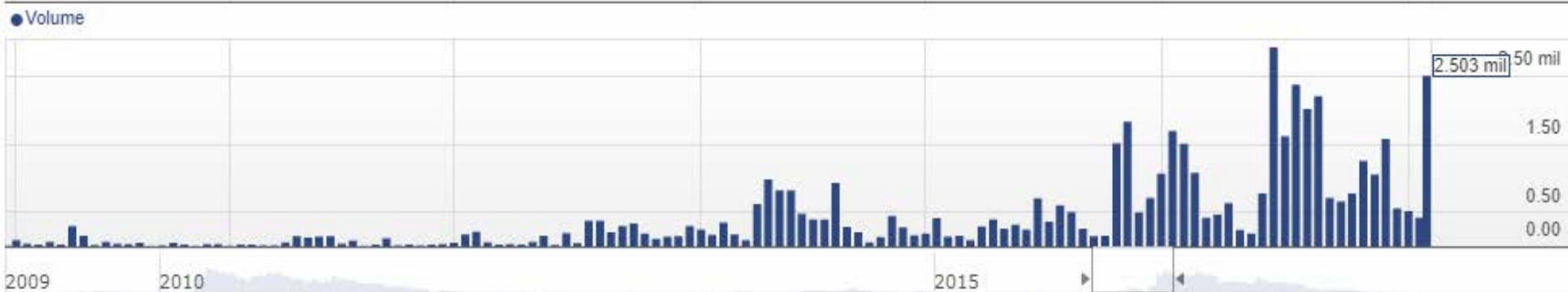
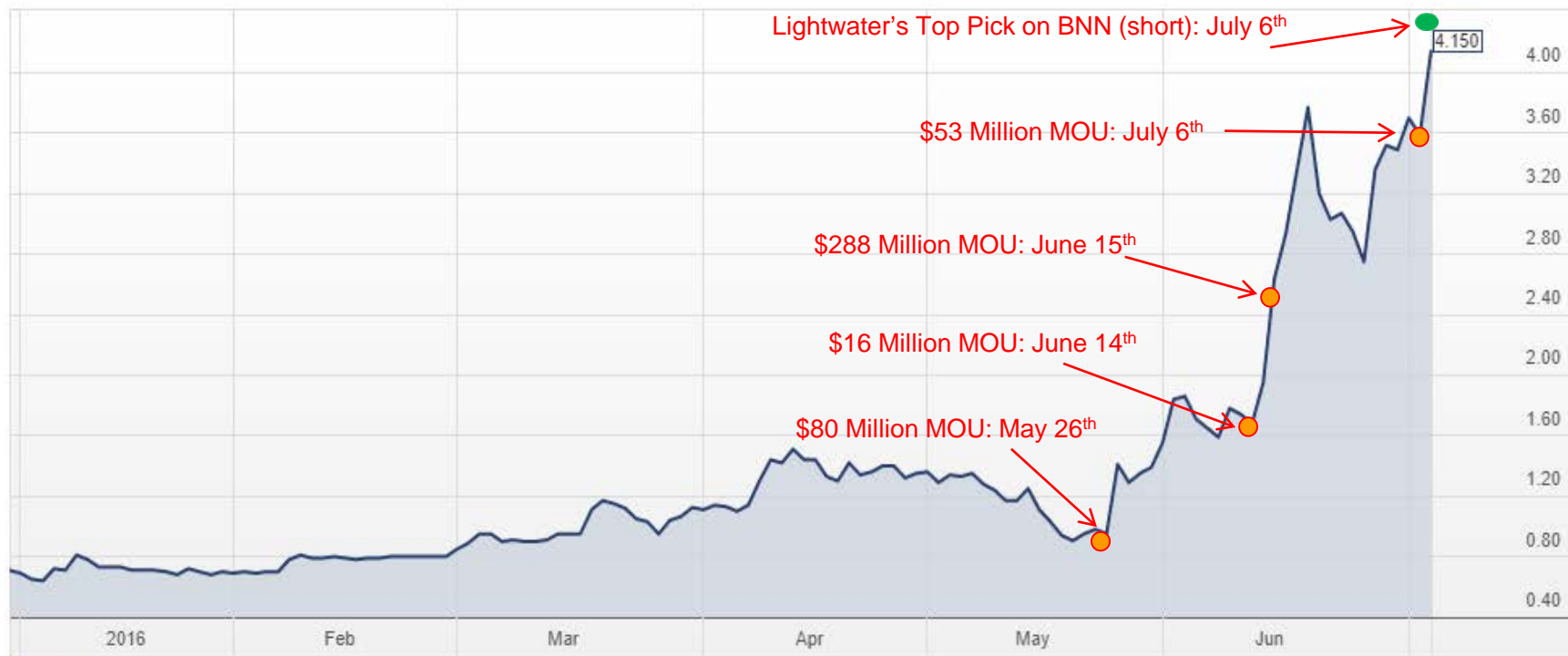
# SHORT: Electrovaya (EFL)

Top Pick on BNN Market Call: 6 July 2016



# SHORT: Electrovaya (EFL)

Dec 31, 2015 - Jul 06, 2016 ● T.EFL



# SHORT: Electrovaya (EFL)

## E-mail Warning from Ron Meisels

----- Original message -----

From: Ron Meisels <[xxxxxxx@phases-cycles.com](mailto:xxxxxxx@phases-cycles.com)>

Date: 07-07-2016 3:45 PM (GMT-05:00)

To: Jerome Hass <[jhass@lightwaterpartners.com](mailto:jhass@lightwaterpartners.com)>

Cc:

Subject: BNN

Hello Jerome,

I definitely would not short EFL (\$3.98)!!!!

We are not your regular, fly-by-night Technical Analysts. I have been doing this for over 40 years and Phases & Cycles just celebrated it Silver Anniversary. So we must be doing something right!

Thanks,

**Ron**

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Phone: 514-393-3653

Email: [ronm@phases-cycles.com](mailto:ronm@phases-cycles.com)

Website: [www.phases-cycles.com](http://www.phases-cycles.com)



**PHASES & CYCLES®**

## SHORT: Electrovaya (EFL)

### Our Fundamental Thesis

- “We haven’t had this much conviction on a short since Valeant”
- The Spin: sexy sector (lithium ion batteries), “leading edge technology”, huge “potential sales” via MOUs and LOIs
- Corporate presentation detailed “Sales Execution” over 2016-18 of \$470 million. We had doubts about those “executed sales”.
- Better at producing press releases rather than batteries
- CEO had a long history of over-promising and under-delivering
- Former ‘deals’ included Chrysler, NASA, Microsoft

## SHORT: Electrovaya (EFL)

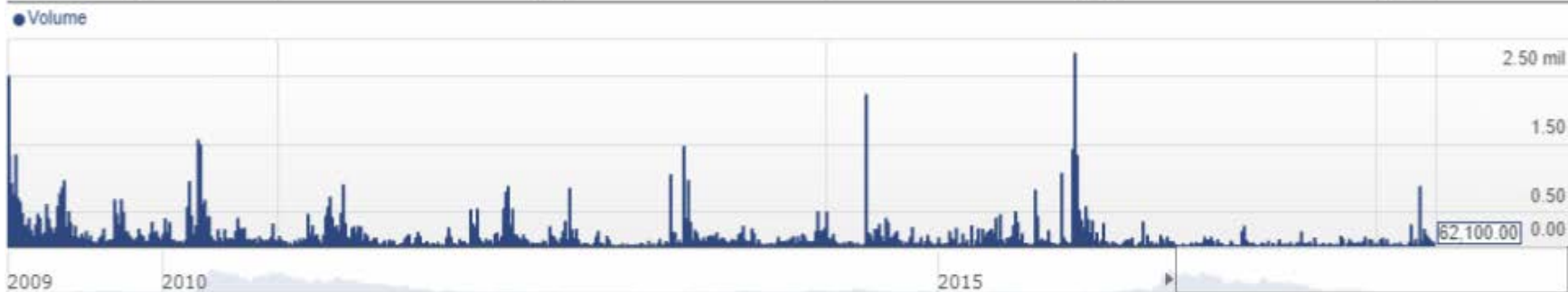
### How Matters Panned Out

- ‘Huge sales’ never materialized: \$34m vs. \$470 m expected.
- Lost \$52.6 million in reported net income in FY 2016-18
- As of 31 Dec. 2018: Cash shrunk to \$446k, Total Assets to \$3.2 million (from \$35.5), negative Equity of \$10.5 million, Debt of \$10.1 million
- OSC sanctioned and fined CEO for Disclosure Violations in July 2017

<b>Income Statement</b>	<b>Sep. 30</b>	<b>Sep. 30</b>	<b>Sep. 30</b>	<b>Sep. 30</b>	
<b>(\$USD)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2016-18</b>
Revenue	16,568	19,535	8,767	5,633	<b>33,935</b>
EBITDA	(1,606)	(6,736)	(17,913)	(6,433)	<b>(31,082)</b>
Reported Net Income	(3,193)	(8,791)	(21,174)	(22,657)	<b>(52,622)</b>

# SHORT: Electrovaya (EFL)

Jul 06, 2016 - Feb 08, 2019 ● T.EFL



## LONG: Tucows (TC)

- It is rare to find a Canadian tech company that produces: (i) Predictable cashflows, (ii) Trades at a reasonable valuation, and (iii) Has decent growth prospects
- Self-sufficient in capital; has bought back over 50% of its shares
- “Uncrowded” mid-cap stock that get no attention from Analysts

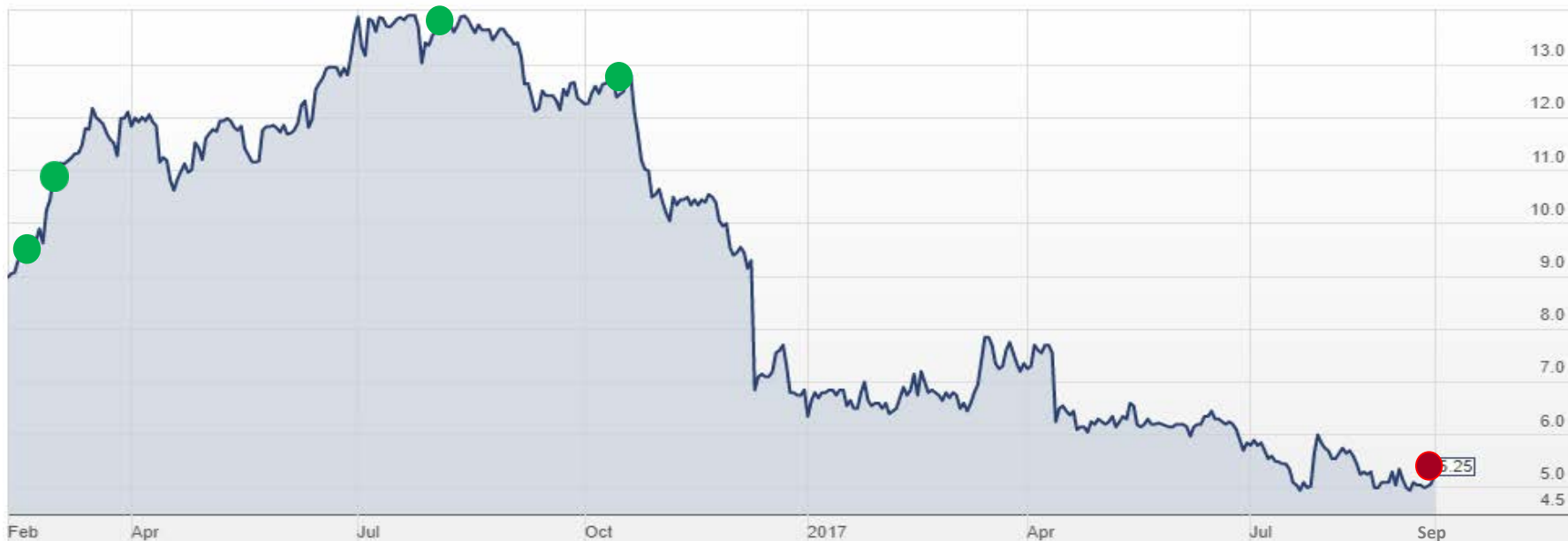




## SHORT: David'sTea (DTEA)

- Absolute short position.
- 'Orphaned' Canadian company on the NASDAQ
- Limited sell-side coverage; none in-depth
- Anecdotal and empirical evidence revealed weak fundamentals
- Online sales masked weak same store sales

Feb 10, 2016 - Sep 15, 2017 ● DTEA



## SHORT: Reitman's (RET.A)

- Absolute short position.
- Most Canadian retailers had a poor summer in 2013; Reitman's as one of the last to report, had an exceptionally bad one.
- Their dividend payout ratio was unsustainable and dividend was cut substantially.
- Reitman's was the largest component of the Dividend Aristocrat index. The stock was removed from the index in Dec. 2013, resulting in forced sales by S&P TSX Dividend Aristocrat Index funds.



## Best Ideas for 2019

- **Cannabis Pair Trade:**
  - SHORT: Canadian cannabis growers (Canopy, Aphira, Aurora, Tilray)
  - LONG: American cannabis retailers (Curaleaf, Harvest, Acreage, Origin House)
- **Cargojet (CJT) Long**
- **Drone Delivery Canada (FLT) Long**

## The Great Canadian Pot Bust

- **SHORT:** Canadian cannabis growers (Canopy, Aphira, Aurora, Tilray, Cronos)
- We believe the fair value of these companies are their cash holdings only; we attached zero value to Canadian growing assets.
- We do not believe that any of these companies will ever turn a true net profit.
- Operating Losses will eat away at existing cash.
- Nortel / Valeant Effect among institutional investors will accelerate fund flows from sector as momentum reverses.

## The Great Canadian Pot Bust

- **LONG:** American cannabis retailers (Curaleaf, Harvest, Acreage, Origin House)
- USA-focused firms will be the main beneficiary of passage of the STATES Act in 2019
- Distribution will be the main source of profitability; private firms can act as a Distributor in USA; profits captured by provincial agencies in Canada.
- Most listed US cannabis companies see little value in growing product; will be phased-out when possible.
- Cannabis retailing will earn 'normal' retail margins.

## LONG: Cargojet (CJT)

- One of few pure plays in e-commerce in Canada
- Entrenched monopolist (90% mkt. share) with robust business model
- Low-cost growth via capacity utilization.
- Should trade at a significant premium to transport sector.
- Not well known and has take-out potential.

Feb 01, 2017 - Feb 07, 2019 ● T.CJT



## LONG: Drone Delivery Canada (FLT)



- Drone Software system integrated with NAV Canada air traffic control system. Agnostic to drone hardware; can adapt to any drone.
- First and only firm in Canada to received commercial approval from Transport Canada (Dec 2018). First in North America to receive Beyond Visual Line of Sight.
- First commercial revenues expected in Q2 2019: \$2.5 Million Moosonee/Moose Factory contract.
- Scale and rollout to other indigenous remote communities thereafter.
- Commercial partners include: Canada Post, Staples, Toyota Tsusho.

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