Tidefall Capital Management Inc.
Q1 2020
April 21, 2020

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TIDEFALL *(after fees)*	6.88%
S&P	-20.94%
TSX	-24.85%

[1] Inception Date: January 21, 2020

Dear Partners,

The fund's total return after fees (since inception Jan 21) was 6.88% vs -20.94% for the S&P and -24.85% for the TSX. It is important to note that as a concentrated investment fund focused on long term returns, our quarterly results offer limited insight into my performance as Portfolio Manager. Let's review in Q4 2024.

Compared to the financial crisis in 2007-08, the biggest difference with this downturn is the rapid and unwavering financial support of governments around the world. Left or right, there appears to be little political pressure against doing whatever it takes to keep the economy from collapsing; the cost may be inflation long term.

Part of our positive return was due to our purchase of put options on **Royal Carribean** stock as a form of portfolio insurance. These options gave us the right to sell the stock at $40 in June; at the time the stock was $65. Given the lethality of Covid-19 and the heightened risk to the older customer base of cruise passengers, the put options priced at $2.74 appeared to offer a case of 'heads I lose a little, tails I win a lot.' (The most we could have lost was 2% of the fund). Government support seemed unlikely since all major cruise operators are incorporated abroad to avoid paying US corporate income taxes. Fortunately, in one week Royal Carribean stock declined by more than half to $30 and the options increased in value to $15.30, more than five times our cost.

We took a position in **SmartCentres**, a big box Canadian operator run by founder Mitch Goldhar that had compounded at 15% since 2002; nearly twice the rate of the REIT index. Unlike many REITs that have small tenants with limited financial flexibility, SmartCentres' tenants are dominated by large, value driven retailers. More than one quarter of rental revenue comes from Walmart. SmartCentres entered 2020 with a 3.5x interest coverage ratio, higher than nearly any other REIT in Canada (apart from **Granite REIT,** which is also of interest). With the units yielding 11% in March, Mitch was interviewed by The Globe and Mail and commented that *'this is one of those moments people will look back on and regret not taking advantage of this significant discount to real value.'* Speaking positively is one thing but Mitch also backed up his words with his wallet, personally buying $8.6m of units.

Finally, **IAC** which owns 80% of **Match Group** (and is due to complete a tax free spin off shortly) traded for less than the value of just its Match stock. Therefore, investors in IAC were getting an incredibly well run company with billions of investments and net cash, for free. We swapped our Match shares for IAC and increased the position. For an overview of why we like Match Group please view our presentation to the Toronto CFA Society, currently pinned to our Twitter profile @tidefallcapital.

Thank you for entrusting us with your capital,

Trevor Scott, CFA