A View From Here - December, 2021

In investing, what is comfortable is rarely profitable - Robert Arnott

A lot is Happening For Our Portfolio

October was one of the best performance months in our history, and volatility throughout November seemed to be ready to offset some of that success…but that didn't happen. Instead, we have had a number of new and exciting things happening to our investments that held our gains rather than setting some back. November basked in the glow of volatility in the markets that has extended to early December due to its heights that few could have ever envisioned considering that we are in a pandemic, and the introduction of yet another variant that threatened to be even more transmissible among the populace. Our accounts dodged most of the downside as news out of Lee Enterprises, Leon's, Reitman's and SmartCentres gave us a boost. Our style of investing requires faith given that we do not tend to hold conventional names and one should look at our long-term results when you need a 'fix' to offset fear. The reality is that successful investing remains an uncomfortable task.

Omicron and The Markets

As markets have recently been vulnerable to mercurial up and down days, we got hit with the onset of a new Covid strain which took on the Omicron moniker, paring back over 4% in a few days. This might have more to do with recent volatility than anything else, but when revealed that there is a new strain, markets had not priced in, it sent markets reeling. In my history of managing investments, it has occurred to me that markets are one of the best leading indicators of all things, as it's as honest a place as one can find, where reactions occur. Generally stock markets react to any and all news that affect things, and larger reactions come from places that were previously not factored in. When we talk about the impact of interest rates, the economy or Covid, new information gets digested into the fabric of the investment work, sometimes to excess, and sometimes not realizing at first how impactful it might be on the economy. But suffice to say, that markets usually shoot first and then ask questions when reacting to new information. As news of this new variant becomes digested into the market fabric, it appears at this point, that this too, will pass.

Takeover, Buyback Offers and Emergence

In November we received a takeover offer for Lee Enterprises by one of the largest investors in local media, Alden Group for $24/share. This offer undervalues the company in my opinion and can be seen as opportunistic. If Lee's management and its bond holder, Berkshire Hathaway were to endorse a takeover, it will have to be at substantially higher prices. Large shareholders have expressed their concern that management will spend too much money and time refuting this offer, but that it is part of the process. In late August, one of Lee's largest shareholders sent a letter to the board of directors valuing the company at over $200/share and warned that if they do not find a way to enhance investor visibility, they would be subject to a low-ball takeover offer. Perhaps this is the start of the end-game for Lee as potential suitors consider if this is the time to commit to its evolution. On December 8, another shareholder filed this. Clearly, things are happening with that name.

Leon's Furniture announced that they will attempt to repurchase up to $200 million or 10.7% of the company in a Dutch auction between $24.30 and $25.05. It is my belief that Leon's remains undervalued and that we continue to hold shares in this company as they continue to put up record results, have no debt and hold more than $10/share of fully owned real estate. At some point I believe, this company will be swallowed up by another large

Canadian retailer (Loblaws, or Canadian Tire perhaps?) who also hold large real estate portfolios and will want to expand their product offering by holding Canada's largest retailer of furniture, appliances and electronics. Lastly, on Leon's, they also announced this month that their furniture.ca online website would be part of Walmart's online offering, further expanding their reach. Let's continue to hold this investment as I believe it is worth substantially more.

SmartCentres announced that they have made a deal to purchase the remaining holding of the VMC (Vaughn Metropolitan Centre) that they and their CEO did not currently own. Even more impressive, they did this deal by issuing units in SmartCentres at $24, a 10% plus increase over where it's currently trading. SmartCentres continues to redevelop their properties where over 70% is made up of parking lots that are being reimagined into mixed use and should substantially increase cashflow over the next decade. All the while we receive monthly distributions in and around 6%.

Lastly, Reitman's announced that following a vote on December 26th, they will emerge from Creditor Protection and settle with creditors to the tune of $95 million. This is well within the range of our expectations and the most recent auditors shows that the business is producing elevated levels of cash flow and profit. However, while we must remain mindful of the supply-chain issues that can have adverse affects on profits, I remain lofty in my ambitions as to just how much further this investment can go.

These are clearly exciting days for our portfolio and I hope that as we ride out another strange Covid year, we continue to see returns that few have been able to achieve.

Thanks for taking a look, and as always,
All Good Things,

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