LIGHTWATER
PARTNERS LTD

February 2024 Commentary

February was a good month for both funds which were up more than 5%. The Nimble Fund is now up 11% year-to-date while the Lightwater Long Short Fund is up 10%. We are pleased to see this positive momentum continue into March.

As sports fans can attest, your team is more likely to win when your biggest stars are your best players. The funds have benefitted from this effect, as three of our top four positions had strong performances.

Long-time holding **Guardian Capital (GCG.A)** was up 20% in the month. Investors were excited that they spent $70 million USD of their $1.3 billion CAD stockpile of cash and securities on a U.S. acquisition. We were also happy to see some capital deployed, but the market reaction seemed a little over the top given the relative size of the deal. We trimmed our position slightly as a result.

DRI Healthcare Trust (DHT.UN) was up 9% in February on the back of blow-out Q4 earnings results: cash receipts came in 76% ahead of consensus and EBITDA beat estimates by 70%. We discuss this company in more detail below.

We also added a new position in February, **Fairfax Financial (FFH).** We had been kicking the tires on Fairfax for a few months, largely at the suggestion of one of our investors. The company is much larger than our typical holding and the stock already had a good run in 2023 (up 52%). The valuation was compelling at 1.0x price/book ratio but we had not yet pulled the trigger. An opportunity came when a short thesis by Muddy Waters (a U.S. hedge fund) knocked the share price down 12% on February 8th. We took advantage of the weakness to purchase a decent position.

Our Fairfax purchase, while justified by its valuation and fundamentals, was driven by other factors. We have been around long enough to know how the game is played: a nasty American hedge fund attacks a Canadian stock and domestic Portfolio Managers and Investment Advisors are indignant at such impertinent behaviour (such as actually analyzing financial statements) because their long positions just took a hit. ‘The Cavalry’, as we like to call them, soon comes to the rescue, as (i) sell-side Analysts issue research reports that are invariably dismissive of the criticisms and (ii) a posse of institutional investors buys up the ‘unfairly’ distressed shares. The share price soon recovers, and everyone is happy again, including the nasty American hedge fund who likely covered their position on day one. We made a 16% return on our FFH holding in February and continue to hold the position.

We are often asked ‘why do only American hedge funds issue short theses on Canadian stocks’? Judging from the weighting Canadian hedge funds represent in major Canadian pension funds (hint: it rhymes with ‘Nero’), the answer would be, ‘all the smart hedge funds are located outside of Canada’. Another more pragmatic answer would be that U.S. courts take a more liberal view of freedom of speech than Canadian courts. It is difficult for an American company that has been subject to a short thesis to prove slander or defamation by a short seller. The same does not hold true for Canada. Hedge funds on this side of the border need to be much more cautious in what they write in a short thesis as a result.

DRI Healthcare Trust: Q4 Blowout Beat

On 28 February, DRI reported Q4 results that blew through consensus expectations. DRI reported $75.8 million in revenues, more than double consensus estimate of $32.6 million. The reason for the huge beat was $33.7 million worth of milestone payments in Q4 that were not modelled by Analysts. Even excluding the milestone payments, royalty income of $39.5 million was 13% ahead of consensus estimates. EBITDA came in at $45.5 million, well ahead of consensus at $27.9 million.

Despite rising 29% YTD, the stock is still cheap. DRI now has three U.S.-listed peers that trade at 2.0x price/book ratio. If DRI traded at its peer average price/book ratio, it would be valued at $20 USD, representing 66% upside. DRI is valued at 4.9x EV/EBITDA 2024 and 5.4x P/CF 2024 with a 2.8% dividend yield. We continue to value DRI at $22 USD representing 83% upside from current price.

We thank our investors for their continued support.

Jimmy and Jerome

STATISTICS - Lightwater Fund[1]

Financial Leverage:	None (no borrowed money)	FundSERV: LWP110 (Class A)	NAV: $ 52.7
High Water Mark:	Permanent	FundSERV: LWP111 (Class F)	NAV: $ 59.1
Subscriptions / Redemptions:	Monthly / 30-Days Notice	FundSERV: LWP113 (Class P)	NAV: $ 60.4
Eligibility: Accredited Investors Only	RRSP, RRIF, TFSA, RESP, LIRA	% Mths Beat TSX When TSX Negative	76.32%
Management Fee: 2% Annually	Performance Fee: 20%	Correlation - S&P/TSX Composite:	0.11

STATISTICS - Nimble Fund

Financial Leverage:	None (no borrowed money)	FundSERV: LWP210 (Class A)	NAV: $ 9.33
High Water Mark:	Permanent	FundSERV: LWP211 (Class F)	NAV: $ 9.29
Subscriptions / Redemptions:	Monthly / 30-Days Notice	FundSERV: LWP213 (Class P)	NAV: $ 6.17
Eligibility: Accredited Investors Only	RRSP, RRIF, TFSA, RESP, LIRA	FundSERV: LWP214 (Class O)	NAV: $ 12.7
Management Fee: 2% Annually	Performance Fee: 25%	Correlation - S&P/TSX Composite:	0.138

Portfolio Managers: Jerome Hass and Jimmy Chu, CFA
Fund Prime Broker: TD Securities Inc.
Fund Administrator: SGGG Fund Services Inc.
Fund Auditor: Goodman & Associates

[1] The return figures for Lightwater are a composite beginning January 1st 2008 and is comprised of the Lightwater proprietary account (Jan '08 to June '08), the Lightwater Canadian Opportunities Fund and the Lightwater Long Short Fund (Jan '09 – present). These funds/account employed the same investment strategies. The Lightwater proprietary account was non-fee paying however all performance figures have been adjusted downwards to take into account the effects of management and performance fees. The Lightwater Canadian Opportunities Fund is currently closed to investors.

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