

Tidefall Capital Management LP
Q4 2020
January 19, 2020

	Q4 2020	YTD*
TIDEFALL <i>(after fees)</i>	13.39%	85.25%
S&P	12.14%	14.79%
TSX	8.97%	2.27%

*Inception: January 21, 2020

I try to avoid macro-economic forecasts but I find it difficult to believe that investors will continue to buy the 10-year bond at just 1%; a rate that is below the Federal Reserve's inflation target. The shift in political attitudes towards deficit spending combined with strong fiscal and monetary policies (to help offset the COVID slowdown) are likely to increase inflation.

Our recent purchases have been in companies that have had some difficulties but I believe their share prices have more than factored in this reality. We are not alone with this assessment of value, as all three have strong buybacks from management teams with a high degree of ownership.

Onex is a Canadian private equity firm. Its stock has come under pressure due to its ownership of Westjet. However, Onex's investment was less than 4% of shareholder capital and Westjet's debt has no direct recourse to Onex. Management has a strong history of buying back its own stock and has retired 53% of its outstanding shares. Just in 2020, they nearly repurchased the TSX annual limit of 10% of outstanding shares.

Fairfax Financial is a property and casualty insurer that has a strong history of building shareholder value. Since inception, book value growth has compounded at 18% per year. With the shares declining 50% in the pandemic, the CEO called the shares "ridiculously cheap" and proceeded to personally invest US\$150m.

Both Onex and Fairfax are trading below book value, meaning investors today are paying little for positive operational developments or reassessment of their prospective returns.

Prairie Sky Royalty is the owner of subsurface mineral rights on a variety of royalty properties in Western Canada. Its economics are vastly superior to traditional energy companies as it does not depend on debt financing or large capital investments. Prairie Sky simply takes a fee from producers that operate on its land. Management owns a material amount of shares and bought back over 4% of the company in Q3. Prairie Sky is heavily reliant on oil prices, however even with the current weak environment it trades for a greater than 5% free cash flow yield.

Trevor Scott

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