AVENTINE
INVESTMENT COUNSEL

Quarterly Manager Letter

Q1 2023

Current News and Updates

QUARTER IN REVIEW

	Q1
Aventine Balanced Composite:	**3.3%**
Aventine Canadian Equity Fund:	**2.0%**
Aventine Dividend Fund (USD):	**2.1%**
S&P 500 Total Return:	***7.5%***
Russell 2000 Total Return:	***3.4%***
TSX Composite Total Return:	***4.6%***
Core Canadian Universe Bond Index:	***2.0%***

COMMENTARY

Six months have passed since the S&P 500 index touched its lowest level in more than two years, shedding ~25.0% of its value at the depths of the 2022 bear market. Since the start of 2023, however, markets have steadily recovered, with the large-cap index rising nearly 7.0% YTD and more than 17.0% from its closing low on Oct. 12, 2022. Despite such early success, 2023 has still managed to keep pace with its predecessors in terms of 'eventfulness', uncertainty, volatility, and tail risk. As such, markets find themselves again at a crossroads, where the possibility of a sharp relief rally (valuation multiple re-ratings) or the next significant decline (weak first-quarter earnings or guidance) seem equally possible.

Addressing the US-banking-system-sized elephant in the room, we believe the Federal Reserve's recent balance sheet expansion (~$400B in 3 weeks) remains a positive assurance for markets in the near term. Equally so, we see UBS's acquisition of Credit Suisse and the continued deposit stabilization among US regional banks as having drawn a line under what could have escalated to a cascading banking crisis. In its wake, however, investors are now divided into two vastly different camps regarding its longer-term implications. On the one hand, some believe the crisis may have circumvented a more significant future catastrophe by bringing hidden weaknesses to the surface and spurring regulators to design the tools to

address them proactively while allowing Central Bankers to press on with their fight against inflation. On the other hand, some believe this event may have unnerved Central Banks, causing them to deviate irrationally from their fiscal policy strategy in the hopes of reducing any further strain on an already fragile system. Both views have merit.

Bank issues aside, 2023 has been a near mirror image of 2022 in terms of asset class performance and expectations. The market has gone from pricing in 50 bps of Federal Reserve interest rate hikes to nearly 50 bps of cuts by the end of the year in just a matter of weeks. However, in the face of escalating uncertainty over monetary policy, growth, and inflation, markets have ostensibly discarded many of the risks they were willing to (re-)embrace as recently as January. Here lies our crossroads. While markets anticipate equities to recover spectacularly upon the end of the hiking cycle (demonstrated by the front-running gains in lower Fed-terminal rate beneficiaries such as large-cap tech), CPI remains stubbornly high. While we acknowledge that inflation's glide-path lower is trending favorably (actually lower), its unhurried pace and less orderly progression have undoubtedly added fuel to already higher-beta risk assets. On balance, while we believe that central banks are near the end of their tightening cycle, we nonetheless remain unconvinced that markets are correct in pricing 50bps of cuts in 2023. We acknowledge that the uncertainty requires greater investment prudence, and we have responded by increasing hedging activity and maintaining higher than average cash positions to be ready to actively take advantage of unjustified market dislocations should they appear.

Aventine Canadian Equity (“ACE” Fund)

	Weight	YTD
AirBoss of America (BOS-CN):	7.7%	2.0%
ATS Automation (ATS-CN):	6.8%	32.4%
OTIS Worldwide (OTIS-US):	6.7%	6.7%
Linamar (LNR-CN):	6.4%	5.2%
GDI Integrated Facilities (GDI-CN):	5.3%	-0.6%

Performance Overview

The ACE Fund had a successful first quarter, posting a return of 2.0% net of fees. This marks back-to-back positive quarterly results for the Fund, compounding on the +2.9% generated in Q4 2022. With respect to overall portfolio positioning, we continue to hold higher-than-average cash positions and have furthered our progress of high-grading our portfolio towards larger market capitalization names with better value and stability characteristics inherent in more liquid positions. Two recent notable additions to our top 10 holdings include Exchange Income Corp (EIF-CN) and CGI (GIB/A-CN). To date, both positions have positively contributed to the Fund's performance and were amongst our top performers in the most recent quarter.

We have followed EIF from a distance for several years, but after a series of meetings with company management, we decided to finally initiate a position in the ACE Fund. EIF has built a leading diversified industrial business with revenue lines including aviation (commercial parts and leasing), building materials, machinery, and matting. We remain impressed by the Company's disciplined growth strategy, particularly its thoughtful and prudent approach to M&A. Investors may remember that EIF had built up a sizable cash position heading into the prior quarter. Complimented by the impressive earnings surprises they posted, driven by their newly acquired matting business, we determined there was a high probability of the Company re-engaging its M&A playbook. In Q1, our thesis played out, and investors were rewarded with back-to-back deals – BVGlazing Systems in the building products sector and Hansen Industries in the machinery sector. These deals are implied to have been completed within the historical acquisition multiple range of 5.0x – 6.0x EV/EBITDA (TTM), which would be accretive to earnings by about ~2.7 - 3.7 turns. In addition to M&A, EIF also focuses its capital allocation on its growing dividend, which yields ~4.5% with and has grown 4% annually over the last 10 years. On balance, this growth by acquisition operator is trading very reasonably at 6.6x EV/ EBITDA (2024), considering its stable business exposures, diversified organic and inorganic growth levers, and track record of value generation for shareholders.

Recently, we also reached a full-weight position in GIB/A, a technology consulting firm. GIB/A presents a tremendous value-oriented offering with ample long-term growth opportunities and stable revenue sources that we believe the market is significantly undervaluing. Specifically, as labor costs remain elevated and the demand for digitization continues to advance, we see a significant need for outsourcing and consultation surrounding major enterprise-wide technological decision-making, integration, and execution. We note that 35% of the Company’s revenue comes from Government related entities, which are conventional sources of stable revenue and profit generation. Additionally, in the most recent quarter, GIB/A reported a very impressive book-to-bill ratio of 117%, equating to a $4 billion revenue pipeline. Over the next several years, we see numerous opportunities for topline growth through expanded end-market diversification and for margin improvements, which will generate advanced funding for internal investments, potential M&A, and returns to shareholders. As these catalysts materialize, we believe that earnings momentum and a potential re-rating from a very conservative 11x EV/EBITDA (2024) multiple will provide meaningful capital appreciation uplift to the portfolio.

In addition to new positions, we continued actively managing our legacy holdings’ exposures in light of recent positive and negative catalysts. First, following ATS Automation's (ATS-CN) announcement of $330M of New EV Battery Orders, we leveraged the company's +30.0% rise in share price to crystalize a portion of our gains ahead of its execution risk period and to rebalance its relative weighting in the portfolio. Second, at the outset of the year, we divested the majority of our P&C insurance exposure in anticipation of normalizing growth and fundamentals, lower asset valuations, and market re-positioning outflows from the sector. While we maintained a small relative position in Trisura (TSU-CN) due to its outsized growth potential and capital-light model, we were impacted by a non-recurring issue in one of their US insurance programs caused by severe weather events in the US. For brevity, one of the companies that TSU re-insured experienced a black swan-like event that led to a technical breach of the insurance program's terms, forcing it into rundown. As such, the Company was required to delay its earnings release and register a material non-cash write-down. After several group and individual meetings with management and analysts, we feel comfortable that this issue is manageable and not a sign of any sort of systemic risk. However, we

acknowledge that this process did impact investors' confidence and that this may take time to rebuild.

We are excited about our current positioning in the face of a still challenging environment for all-cap strategies. We believe that our portfolio has several positive catalysts coming in 2023 which, given current valuations, should result in some significant re-ratings.

Aventine Dividend Fund

	Weight	YTD
Brookfield Infrastructure Partners (BIP-CN):	6.1%	7.8%
Agilent Technologies (A-US):	5.9%	-7.8%
Costco Wholesale (COST-US):	5.5%	9.6%
Visa (V-US):	5.1%	8.7%
Franco-Nevada (FNV-US):	4.8%	5.5%

Performance Overview

The Aventine Dividend Fund had a respectable first quarter, returning 2.1% in USD. While we underperformed the S&P 500 over the same time period, much of the market's return was driven by a select number of companies in the technology sector (specifically, the top 5 names in the SPX drove ~70.0% of its YTD gains). The S&P 500 Equal Weight, a better representation of the market breadth, returned just 2.4%. Over the course of the quarter, we built a newly established position in Nintendo Company Ltd (NTDOY-US).

We surmise that most readers would have heard of 'Nintendo', the beloved family-friendly video game company from Japan, and perhaps, even more, would be able recognize any of its iconic characters, including the Mario Brothers, Zelda, and Pikachu. While for some, this recognition may stem from the current news flow regarding the record-breaking new *Super Mario Bros.* movie. For others, this familial relationship began with a childhood indoctrination of countless hours playing iconic generational consoles such as the Nintendo 64, Game Boy, Wii, or Switch. In either event, for such a universally recognized company, it seems paradoxical that its story could be *so* structurally misunderstood and mispriced.

When people think about NTDOY, the stock, they tend to place undue reliance on the historical cyclicality of the business, thinking about each console mentioned above as standalone inflection points in the cyclical-patterned stock chart. Under this view, each sequential product launch witnessed a material rise in the platform revenue and game-related sales, followed by a gradual decline along the respective lifecycle maturity curve, only to be reset again by introducing the newest iteration. We believe this is a flawed valuation approach that fails to recognize the transformational actions already underway at Nintendo.

Over the past few years, Nintendo has restructured its business into a customer-centric, console-agnostic, software-driven offering. In essence, Nintendo is attempting to adopt the

Apple iOS-iPhone model, whereunder users have continuous access to their accumulated data, independent of their device, leading to stickier customer retention. This strategy leverages cloud infrastructure to support NTDOY's own proprietary operating system and has led to operating margins increasing from ~6.0% in 2017 to ~35.0% today without a material increase in valuation. We believe the advancement of this strategy allows NTDOY to focus its resources on a core competency - content creation. Here, we see the Company's increasing efforts to leverage its existing IP through an expanded array of entertainment channels and mediums presenting a significant opportunity for expansion and customer value enhancement.

Moving forward, we see user data as a major competitive advantage for NTDOY, one of the market's most vertically integrated gaming console manufacturing companies. Specifically, the Company may utilize users' first-party data generated within its ecosystem to optimize experiences with content, pricing, promotions, marketing, etc. Over time this relationship between data and value should become self-reinforcing as the user engages more with the platform, creating network effects and increased data inputs, which allows the Company to re-optimize the experience, which then fosters further user utilization and data creation, and so on. From a profitability perspective, we see this materializing through advanced pricing power, higher subscription volumes, increased attachment rates, and ultimately higher free cash flow and total returns to shareholders.

On balance, we believe there is a significant degree of asymmetry surrounding the understanding of NTDOY. Considering its growth path, its un-levered balance sheet, the value of its wholly owned and non-controlling interest IP, and the extent of its current discount (12x P/E net-of-cash), there are few equivalently well-balanced risk-reward profiles as NTDOY, particularly in today's market conditions.

Conclusion

We continue to find ourselves in a challenging market environment that will likely remain prone to further ups and downs as more clarity is provided on corporate profits, central bank actions, and the economy. We are not out of the woods yet, but after many quarters of slowing growth and inflation we are likely not far off from the point of re-acceleration, a period usually positive for risk-oriented assets. In the interim, we continue to benefit from the re-introduction of defensive asset classes, such as gold and fixed income, which we scaled into in anticipation of this period of rising uncertainty. We expect to maintain these exposures in the near term as we continue to benefit from their protective characteristics and increasing position flows from other investors.

In market environments such as these, it is important for investors to remember to step back, take a breath, and make decisions from a position of reason. Too often, we can be inundated by the endless stream of polarizing if-this-then-that market opinions shared by 'expert' pundits or the dominant economic narratives that tend to oscillate between irrational exuberance and fearmongering. Understandably, these factors can lead to unconscious emotions and biases that run counter to the principles of fundamental investing, particularly for those with long horizons.
At Aventine, we focus on our conservatively calculated intrinsic **valuations** and companies' fundamental key operating metrics as the cornerstones of our decision-making. This is not to say that share **prices** do not play an important role - as mentioned above, we use it responsibly

to optimize position sizing (ATS), gauge tactful position entry and exits (NTDOY), and monitor sector exposures (TSU) – it is just not the core determinant. Instead, Aventine remains committed to investing in businesses with asymmetrical fundamental value pursuant to our belief that companies with competitive advantages, stable balance sheets, first-in-class management teams, proven track records of cash flow generation and successful re-investment ultimately create value for shareholders. To leave you with a slightly financial amended quote from the late (and great) Justice Ginsburg, *"A[n] [investor] ought not be affected by the weather of the day, but will be by the climate of the era"*.

Thank you for your continued support of Aventine as your Investment Manager and Investment Counsellor. Please do not hesitate to reach out to learn more about our investment strategies. We are always excited to discuss our clients' accounts with them and how we may be of greater value.

Best as always,
James, Jim, David, Shannon, and Nicho

Contact Information

	Email	Phone
James Telfser	**jt@aventine.ca**	**647-695-8063**
Jim Pottow	**jp@aventine.ca**	**647-694-6262**
David Pepall	**dp@aventine.ca**	**647-557-6382**
Shannon Vadovic	**sv@aventine.ca**	**647-697-3533**
Nicho Hart	**nh@aventine.ca**	**647-557-2487**

Aventine Performance Update
March 31, 2023

Aventine's Partners and their families are among the largest investors across each of our strategies.

Aventine Balanced Composite
Inception: June 1, 2009

Aventine Balanced is our core portfolio for separately managed accounts following a "balanced" mandate. It is an actively managed, endowment-style portfolio that offers investors diversified exposure to a broad variety of markets and asset classes. This diverse portfolio produces below average volatility and high income generation as we include asset classes

such as private debt, mortgages, traditional and non-traditional fixed income, all-cap equities, alternatives and portfolio protection through prudent risk management strategies.

	Q1	2023	
Aventine Balanced Composite	**3.3%**	**3.3%**	
Annualized	**3 Year**	**5 Year**	**Inception**
	8.7%	**3.4%**	**6.7%**

Additional performance information and disclosures on composite construction is available upon request.

We encourage new clients to join Aventine by investing in our customized portfolio solutions which are tailored to your specific goals.

To learn more about how our independent approach to managing wealth differs from traditional models please feel free to contact us anytime.

WEB: AVENTINE.CA | EMAIL: INFO@AVENTINE.CA |PHONE: 647.697.3533

This email communication is intended to provide you with information about the Aventine Balanced Composite (the "Composite"), the Aventine Canadian Equity Fund and the Aventine Dividend Fund (the "Funds") managed by Aventine Management Group Inc. The Funds are distributed by prospectus exemption in various jurisdictions across Canada, please contact Aventine Management Group Inc. to discuss if you may be eligible to invest. Important information about each Fund is contained in its Offering Memorandum which should be read carefully before investing and may be obtained from Aventine Management Group Inc. upon request. The Offering Memorandum does not constitute an offer or solicitation to anyone in any jurisdiction in which such an offer or solicitation is not authorized, or to any person to whom it is unlawful to make such an offer or solicitation. All investors should fully understand their risk tolerance and the suitability of the Composite and the Funds prior to making any investment. Rates of return presented for all periods greater than one year are the historical annualized compound total returns for the period indicated. For periods less than one year the rates of returns are a simple period total return. Rates of return do not take into account income taxes payable that would have reduced net returns. The performance presented for the Funds is the performance of the target series of F Class units. The value of the Composite and the Funds is not guaranteed and will change frequently. Past performance may not be repeated. All credited third-party information contained herein has been obtained from sources believed to be reliable at the time of writing, but Aventine Management Group Inc makes no representations as to its accuracy.

Copyright © 2023 AVENTINE MANAGEMENT GROUP INC., All rights reserved.

Our mailing address is:
#3400, 2 Bloor Street West, Toronto, Ontario M4W 3E2