FIRST QUARTER 2020

Index	Q1 2020
S&P/TSX Composite (C$)	-20.09%
S&P 500 (US$)	-19.60%
S&P 500 (C$)	-12.18%
MSCI EAFE (US$)	-22.83%
MSCI EAFE (C$)	-15.70%
FTSE TMX Universe Bond Index (C$)	1.57%
C$ / US$	1.2990 to 1.4187 (-8.45%)

***** Index returns are total returns, including dividends.***

A TIME LIKE NO OTHER

Over the past few weeks, our lives and the lives of those all over the world have been disrupted by the novel coronavirus, or COVID-19, in ways we could never before have imagined. In response to the sudden outbreak and exponential spread of the disease, governments around the world have instituted strict, some might say draconian, measures to slow its transmission and give respite to their countries' healthcare systems. In turn, major portions of the economy have ground to a halt at a speed without historical precedent.

The human and economic effects of this pandemic have generated significant worry and this fear has led to one of the fastest-falling bear markets in history. Though the world's central banks and governments have quickly acted in unison to support the economy and the proper functioning of markets by injecting stimulus packages of unprecedented magnitude, fear nonetheless has reigned. With the exception of government-backed securities, practically all asset classes have experienced strong selling pressure amid the panic as participants race to cash.

The rush to perceived safe havens has been unlike anything that we have seen since the Financial Crisis. At one point in mid-March, long-term U.S. and Canadian government bond yields fell below 1% and shorter-term government bonds yielded effectively nothing. Prices for bonds of even high quality corporate issuers fell sharply and those of lower quality fell even more dramatically. This led to a canyon-sized gap in spreads in the fixed income market that has only recently started to narrow again.

A similar pattern unfolded in equity markets where stock prices of companies thought to be riskier, more cyclical or more exposed to the disruption fell like a stone while those of companies thought to be safer, steadier and more resilient to the disruption fell far less dramatically. This is again demonstrated by the difference in performance between stock indices and their average

constituent. While the S&P and S&P/TSX both returned -20% in their native currencies this quarter, the average stock in each of those indices returned -27% and -30% respectively.

PRICE DOES NOT EQUAL VALUE

Although the speed and severity of stock market drawdowns have been highly discomforting to many, it is absolutely imperative to remind ourselves during times like these that when we buy stocks, we are buying ownership stakes in businesses and not the corresponding tickers that change wildly by the second. This makes ownership of shares of publicly-traded companies little different than ownership of private businesses: as owners, the value that we obtain from a business will be determined by the cash flows that the business will generate in the future, nothing more and nothing less.

However, a crucial difference does exist between owning public and private companies. In the public markets, we are every day being offered new prices at which we may buy and sell shares. We can ignore such offers, only choosing to contract when the prices being offered are particularly attractive. Following the recent panicked selling, stock prices for many public businesses, including many which we already own, have fallen significantly lower and currently offer return prospects far greater than they did before the crisis erupted.

To be sure, the current economic disruption caused by the virus will undoubtedly see the profits of many businesses decline or even disappear for a period lasting anywhere from a few months to a couple of years. However, if we ask ourselves what we think the impact of the virus and its associated after-effects will be on the outlook for businesses in general ten years from now, the answer seems far more mundane. For companies that can weather the current storm, it is not their earnings prospects over the next year or two that will have the largest impact on their intrinsic values, but their long-term outlooks.

HOW SOME OF OUR COMPANIES HAVE BEEN AFFECTED

Unfortunately, it is likely that many businesses will not weather the current storm despite extraordinary government intervention to keep industries and businesses afloat. As investors, it is our job to evaluate and make judgments on which ones will survive. While there is no doubt that we will make some mistakes, we believe that we can substantially mitigate this risk by investing in a highly diversified cross section of different businesses in different industries. Some will face difficulties but there are also others that are likely even to benefit from the current downturn.

We emphasize that our foremost preference is to own strong companies with enduring competitive advantages backed by exceptionally strong balance sheets. Our three largest holdings, Berkshire Hathaway, Google and Samsung Electronics, are representative of that: each holds a net cash balance of over US$90 billion, granting them not only significant liquidity to weather the current downturn comfortably but also the ability to bolster their competitive positions and to take advantage of attractive acquisition opportunities. Berkshire, in particular, has held over US$100 billion in cash for years in anticipation of a bargain price environment exactly like the one that exists today.

In addition to these three powerhouses, we also own a host of businesses that offer essential services that should see limited impact from the current disruption. One example is Johnson & Johnson, a world leader in pharmaceutical drugs and consumer products, that also happens to be a leading contender to develop a vaccine for COVID-19. Others include internet broadband providers such as Rogers and Comcast, both of which provide a crucial service and have seen sharp increases in data usage over the past few weeks as a result of the shelter-in-place rules currently in effect.

Lastly, we own a few companies that face great disruption. An obvious one is Spirit Airlines, an ultra low-cost airline in the U.S. that we were first attracted to due to its low-cost advantage, efficiency of operations and the attractive price of its stock relative to its future earnings growth potential. COVID-19 and the government-mandated travel restrictions that have followed have since decimated airline revenues across the board. While government assistance and Spirit's strong liquidity position will help tide it over, there is no doubt that the company and the broader airline industry face considerable uncertainty in the future.

Another example is Martinrea International, a small automotive parts manufacturer in Canada that we have profiled in the past. We have owned Martinrea for several years and have been impressed by the measures the current management team has taken to improve operations, reduce financial leverage and add shareholder value. Nonetheless, as the majority of auto production facilities across North America and Europe have all but closed, Martinrea is currently operating with virtually no revenue. We remain confident that Martinrea has the liquidity and the balance sheet to last the next several months, but we also acknowledge the unprecedented adverse environment that it currently faces.

HOW WE MANAGE RISK AND RETURN

Businesses that rely on discretionary consumer spending such as Spirit and Martinrea currently trade at prices that under normal circumstances would be deemed massively undervalued, offering substantial upside should economic conditions normalize in the near future. In contrast, the outlook for companies such as Berkshire and Google is far less murky, and as such their market prices have seen far more moderate declines and will accordingly experience a more modest uplift when normalcy prevails.

Although prospective returns of companies such as Spirit and Martinrea may be far greater than that of Berkshire and Google at current market prices, we are also keenly aware of the challenges that they face. At the same time, we do not feel that a portfolio's risk/return ratio is best optimized by simply owning the highest quality companies or companies that have been disrupted the least, many of whose stock prices have already been bid up to such an extent that precludes the margin of safety that we require.

The middle ground is where we are the most comfortable. As value investors across a wide spectrum of different companies, we believe that owning a mix of diversified companies in both buckets enables a balance that matches appropriate returns with appropriate risk. We will not abandon our process and buy stocks simply because they are in vogue or because their prices have

performed better in the short run; nor will we only buy stocks that trade at highly distressed prices but face substantial challenges.

We wish to emphasize again that we have made mistakes and that we will continue to make mistakes in our evaluation of businesses. The world is an incredibly complicated place and even the best judgments are inherently imprecise. But our mistakes will be counterbalanced by our wins, and the final ledger has shown — and, we believe, will continue to show — that our approach and process leads to an attractive return over time.

HISTORY DOESN'T REPEAT ITSELF, BUT IT RHYMES

The COVID-19 crisis is unlike any that we have seen and the recent crash in market prices has shocked many, gripping even seasoned market participants with a level of fear not seen since the Financial Crisis. As in other periods throughout history, considerable uncertainty looms and there will be plenty of companies that will not survive the imminent downturn. Nonetheless, while investors are right to be wary of companies with too much leverage or with weak competitive positions, fears about the long-term prosperity of businesses in general are misguided.

This view has been reinforced, time and again, by what has happened throughout history. The following chart shows the returns that stocks have generated in each of the bear markets over the last 100 years:

Bear Market Start Date	Bear Return
Sep. 1929	-86%
Mar. 1937	-60%
May 1946	-30%
Aug. 1956	-22%
Dec. 1961	-28%
Feb. 1966	-22%
Nov. 1968	-36%
Jan. 1973	-48%
Nov. 1980	-27%
Aug. 1987	-34%
Mar. 2000	-49%
Oct. 2007	-57%
Feb. 2020	-24%

Source: JP Morgan Guide to the Markets

Dating back to 1920, the S&P 500 index has declined by over 20% 13 separate times and by over 40% four separate times, even falling by 86% during the Great Depression. On average, returns from stocks averaged -41% in the 13 bear markets and in each of those periods, investors had been discouraged, seeing nothing but gloom and doom. Yet, stocks have cumulatively returned an incredible 144,788% over the past century, for an annualized return of 7.5%.

In addition, it is worth noting that the returns in the years that followed those 13 bear markets were particularly bountiful, averaging 166% over the next four and a half years, making up for the previous decline and then some:

Bull Market Start Date	Bull Return
Jul. 1926	152%
Mar. 1935	129%
Apr. 1942	158%
Jun. 1949	267%
Oct. 1960	39%
Oct. 1962	76%
Oct. 1966	48%
May. 1970	74%
Mar. 1978	62%
Aug. 1982	229%
Oct. 1990	417%
Oct. 2002	101%
Mar. 2009	401%

Source: JP Morgan Guide to the Markets

To be sure, we cannot predict the short-term movements of markets. We have no idea what stock prices will be in a week, a month or even a year. Neither, do we believe, does anyone else. However, we are highly confident that prices for stocks broadly will be higher in 10 to 20 years than they are today, perhaps even substantially so.

RATIONAL OPTIMISM

To conclude, we wish to underscore that investing, at its core, requires a certain level of faith. Faith that the economy will continue to grow. Faith that businesses will continue to prosper. And faith that the human condition will continue its long inexorable march upward like it always has done. Such faith has understandably been tested and once again we find it useful to remind ourselves of what has come before.

Over the last 100 years, the world has seen countless calamities, including two world wars, a global depression, and a flu pandemic that ended in the deaths of tens of millions. Yet, the overall quality of life rose broadly at a rate never seen before. Standards of living, as measured by the increase of per capita GDP in real terms, rose by anywhere from four to six times in the world's developed countries and increased even more dramatically in some developing countries. Average life expectancy all over the world more than doubled, and in just the last 40 years the percentage of people living in extreme poverty, defined as living on less than US$2 a day, declined from 40% to 8%.

Though it may be difficult at present to see through the current fog into better times, it has always been a mistake to bet against the human spirit, its ingenuity and its perseverance. COVID-19 will

not reverse the trends of long-term progress and it, like the countless other challenges throughout our history, shall pass as well.

Thank you for your continued confidence and support,

The Evans Team