

## **NR CONSERVATIVE GROWTH FUND LP**

**FEBRUARY 2021**

February was another excellent month for the growth fund, which rose +10.68%, solidly outpacing the returns from the TSX (+4.36%), the S&P 500 (+2.76%) and the Nasdaq (-0.11%). Strong returns were driven by positive returns across most of the portfolio as quarterly reporting season commenced with some very strong reports from our portfolio of companies. Particularly impressive were the reports coming from a number of our oil and gas holdings, which we had been waiting to be recognized by the market. Top performance for the month came from our largest junior oil and gas producer, Tamarack Valley Energy, which appreciated by 62% during February, but continues to be substantially undervalued by the market.

### **THE FUND HAS STARTED THE YEAR VERY STRONGLY, WHAT'S TO COME?**

Both January and February have been strong months of outperformance for the fund driving the fund up 15.71% year to date, well ahead of the broad market indices. A few investors have asked given how strong the year has started, what can we expect going forward?

While the start to 2021 has been very strong for holders of the growth fund, we believe returns over the year to come should continue to be extremely solid. While general market valuations are getting expensive and many of last year's go-go stocks have gotten to the ridiculously expensive level, the disciplined investment approach of the conservative growth fund has kept us in fundamentally superior long-term growth opportunities trading at a discount to both intrinsic value and the general market.

Late January and February saw the beginning of fourth quarter reporting season by corporations and most companies are showing very solid recoveries from the difficulties of the second and third quarters. By sticking with our disciplined investment approach of continuing to own companies with competitive advantages that allow them to outpace their competitors and gain advantage during periods of difficulty similar to the COVID crisis of 2020, we are starting to see the fruits of our discipline. Across the board, our companies are showing solid improvements and look to have excellent years in front of them, while some of their competitors have fallen to the negative onslaught of the COVID ravaged economy of 2020.

While there are many compelling stocks in the portfolio reporting great results recently that we could discuss, we will focus this letter on February's top performer, Tamarack Valley Energy. Tamarack is one of the few junior energy producers to survive the onslaught of the 2020 COVID and comes into 2021 looking better than ever.

### **TAMARACK VALLEY, AN AMAZING JUNIOR THAT SURVIVED COVID-19 AND EMERGED STRONGER**

Tamarack Valley, is not a well know stock. Despite having been run by an excellent technical team headed by the former President of Apache Canada, Brian Schmidt, and having made many strong strategic moves since its start it has failed to gain much of a following. This is largely due to the company having been built during one of the worst decades for the oil and gas business as many investors have fled the sector.

Oil and gas prices were in a relatively steady downtrend over the last decade, and Tamarack was trying to build a growing business while fighting the tide of falling sales price for its products. Despite the falling prices, the company has been steadily building over the last five years, and by 2020 Tamarack had become a serious 20,000 barrel a day producer with excellent low-cost positions in the Southern Alberta Viking and Western Alberta Cardium formations.

The 2020 COVID crisis hit the oil and gas industry very hard with oil prices dropping under \$10 last spring. Many poorly positioned energy companies with high cost positions or over-levered balance sheets went bankrupt or were forced to sell. Tamarack was well positioned with low-cost operations and a good balance sheet. While cash flows dropped last year due to the low commodity prices, Tamarack continued to make money and produced \$125 million of cash flow and despite the carnage even produced free cash flow in this difficult year.

Many other companies were in extreme duress due to over-levered balance sheets and were forced to sell off assets due to the downturn. Tamarack has been one of the winners here, as they have been able to acquire some great growth assets in 2020 and early 2021 to continue to build an ever more impressive company. In late 2020, Tamarack made their entry into their next leg of growth, with two acquisitions of properties in the high return Clearwater oil play in Northern Alberta at very attractive valuations. This was then followed up in early 2021 with

two more acquisitions in northern Alberta which added more Clearwater land as well as attractive low decline rate oil pools.

Tamarack's steady, methodical approach to doing business resulted in the company entering a period of crisis in a strong position and being able to ride out the volatility, but more importantly it allowed the company to make acquisitions of some of the most attractive properties in the industry at accretive valuations due to the weakness of many of its competitors. Brian Schmidt and his team continue to build what will soon be a higher profile, better known story as their steady execution and growing company starts to get recognized by the markets in coming periods.

Tamarack is a company that we have owned several times in its 10-year history in the public markets. We added Tamarack back into the portfolio last year after its stock was unfairly swept up in last year's panicked COVID selloff. While we had to withstand a lot of up and down volatility last year, we are now starting to see the payoff in our persistence in owning this great little growing company. In February, investors seem to finally be starting to understand that not only is this company very undervalued, but it has a fantastic future in front of it. Look for more solid gains to come from Tamarack Valley Energy.

## INSIDER BUYING... CONTINUED IN FEBRUARY

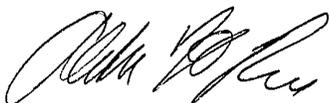
As in prior months, we continue to see insiders buying stock at a number of our portfolio holdings, as executives see the same opportunities that we do. Most prominent insider buying during February was seen at Alaris Equity, PrairieSky Royalty, Tourmaline Oil, Suncor Energy, PHX Energy, and Whitecap Resources, all important holdings in the fund. We think buying of stock by insiders at our companies is just one more point of support for the undervaluation opportunity at our holdings, as these are the very people that know their businesses best.

Additionally, given the compelling undervaluation in our portfolio holdings, I once again added to my holdings in the fund.

## March 31st... Next LP Closing

The next closing for the NR Conservative Growth Fund LP is March 31st, 2021. Please feel free to contact Daria Krikun at 416-364-8591 or Aaron Sniderman at 416-847-3979 for more information or to set up an appointment, or call 416-323-0477 to speak with any one of us directly concerning the Conservative Growth LP. Our toll-free number is 1-877-327-6048.

Warmest regards,



**Alex Ruus, CFA, MBA, P. Eng**

Portfolio Manager  
Arrow Capital Management Inc.

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