

NR CONSERVATIVE GROWTH FUND LP

JANUARY 2021

January was an excellent month for the growth fund, which rose 4.54%, solidly outpacing the negative returns from the TSX (-0.3%) and the S&P 500 (-1.0%). Strong returns were driven primarily by a combination of some very strong individual stock performance from a number of individual names and outperformance generally from the energy sector, which represents the largest industry weighting in the fund.

WHY HAS ENERGY STARTED TO OUT PERFORM THE MARKET?

The energy sector has just completed one of its worst long-term periods of performance in history. Following a strong bull market for the energy sector from 1998 to 2008, we have experienced a long and painful bear market for energy in the 12 years since oil peaked in 2008 at \$150 per barrel. The lows of 2020 for oil at under \$10 per barrel of oil will mark the end of this energy bear and the beginning of the next bull market in energy, as substantial underinvestment in the business over the last several years is setting up the industry for shortages and high commodity prices in the coming years.

We have already seen oil prices recover from the sub \$10 per barrel lows of last spring to more recent prices of over \$50 per barrel. The stock market has only started to recognize the recovery in oil prices and the substantial recovery in cash generation by energy companies, but to date the equity market reaction to higher commodity prices has not been properly reflected in the stocks. A large part of this is due to the psychological and emotional damage that has been experienced by many holders of energy equities over the last decade, which has been painful to say the least.

It will likely take a few years of stable to rising prices before many of the psychologically damaged investors are willing to venture back into this sector. But what those investors that have fled the sector have missed is that the well-run companies that have survived only experienced temporary drops in their share prices and many of these better companies are set to emerge stronger and more profitable in the years to come. Stock prices of these better companies have yet to reflect their intrinsic values and will reward shareholder handsomely in years to come.

The damage and bankruptcy of many weak companies and investor psychology has set the market up for the excellent returns that are to come from energy stocks over the coming years. Low commodity prices have left behind a sector that has seen multiple years of underinvestment in what continues to be a key backbone to the modern economy which continues to depend on ever increasing amounts of cheap energy. While we may still experience short-term volatility in the near term as COVID sheltering continues in the short-term, the bottom of the energy bear is now in the rearview mirror and a new bull cycle has begun.

HOW IS THE FUND POSITIONED TO BENEFIT FROM THIS BULLISH OUTLOOK?

At a time when the broad equity market indexes now have their lowest representation from energy in many decades thanks to the bear market, we have found numerous very attractive, well run companies with businesses that are set to build increasing streams of cash for their shareholders in the coming years. Energy stocks now represent roughly one third of our portfolio, which reflects the fact that all these investments are trading at substantial discounts to their intrinsic value, and we have a sector that is trading at close to its lowest valuation levels in many years while much of the rest of the market is now close to record high valuations.

This sector helped us to excellent performance in January, and it is likely to help us continue with strong performance over the coming year. With this bullish backdrop for this overlooked area of the market, we will now move on to the next in our series of individual stock holdings which we believe has a bright and profitable future in front of it and happens to also come from the energy sector.

THE INCREDIBLE STORY OF CANADIAN NATURAL RESOURCES

Canadian Natural Resources is not only one of Canada's biggest and most successful companies, but it is also one of the best managed companies in the entire world. Canadian Natural was a startup Calgary energy company producing under 100 barrels per day in the mid 1980's. Through a steady and disciplined management style of strict adherence to only investing in the best projects and a very opportunistic acquisition strategy that takes advantage of the cyclical character of the energy sector, the company today has emerged as one of the globe's largest energy companies, producing over 1 million oil equivalent barrels every day.

While other companies struggle through downturns in their industries, Canadian Natural thrives in downturns

making investments and acquisitions to strengthen the company while others are scrambling just to survive. The company is able to achieve this by being one of the lowest cost producers in the industry, maintaining low financial leverage, keeping control over their production infrastructure, and owning some of the highest quality resources.

2020 was another successful year for the company, despite what was a traumatic year for the energy sector as a whole. With the drop in oil prices to under \$10 last spring, many companies were forced into bankruptcy or into hurried moves to sell assets to shore up over-leveraged balance sheets. Meanwhile Canadian Natural was able to patiently sit back and continue to invest (albeit at much lower levels) in its most attractive projects and took the opportunity to purchase one of the most attractive natural gas properties in Western Canada at discounted pricing through its purchase of junior producer, Painted Pony. This acquisition will allow it to benefit from a growing natural gas export market from Canada via the startup of BC LNG exports in about 3 years time, which will give rise to a structural rise in Canadian natural gas pricing.

While Canadian Natural did experience lower year over year financial performance in 2020 due to the substantially lower commodity prices, the company actually built intrinsic value for shareholders through its investment decisions and the purchase of Painted Pony. So, with a lower stock price and one of the cheapest valuations the company has ever seen, we purchased a position in the company in 2020 and believe it will produce great returns for our fund in the years to come as it continues to rebound from a depressed price. Look for the company to hit new highs in cash flows, profits, dividends, and share price in the coming years.

INSIDER BUYING... CONTINUED IN JANUARY

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 January was seen at ECN Capital, PrairieSky Royalty, Tourmaline Oil, Suncor Energy, Enbridge, and Interpipeline, 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.

February 28th... Next LP Closing

The next closing for the NR Conservative Growth Fund LP is February 28th, 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 and Happy New Year,



Alex Ruus, CFA, MBA, P. Eng

Portfolio Manager
Arrow Capital Management Inc.

Commissions, trailing commissions, management fees, performance fees, and expenses all may be associated with investment funds. Please read the offering memorandum before investing. Any indicated rates of return are the simple returns (YTD, 1 mo, 3 mo, 6 mo) or the historical annual compounded total returns (1 yr, 3 yr and since inception). All returns are net of fees but do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated. The Northern Rivers Global Energy Fund LP and the Northern Rivers Conservative Growth Fund LP invest primarily in North American equities.

Geographic and sector allocations may vary significantly over time. The funds tend to follow a relatively concentrated investment approach where the manager may overweight selected core holdings and industry sectors such as energy or financial services in which the manager has particular conviction and/or specialized expertise. The funds may engage in short selling and may also use specified derivatives, such as calls and puts, warrants, index futures and exchange traded funds. This may result in portfolio weightings and investment performance being substantially different from that of the S&P/TSX Composite, S&P 500 or other market indices.

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