

## **NR CONSERVATIVE GROWTH FUND LP**

**MARCH 2021**

March was another very strong month for the growth fund, rising +6.40%, again solidly outpacing the returns from the TSX (3.87%), the S&P500 (+4.38%) and the Nasdaq (+1.59%). Strong performance was driven by gains from majority of the portfolio holdings, alongside double digit returns in large holdings like Anthem, Cisco, Canwel, and Canadian Natural Resources. Additionally, our large holdings in the Oil and gas companies continue to outperform the market as this undervalued and underowned area of the market continues to make solid gains for fund holders.

### **FUND IS UP 23% SO FAR THIS YEAR, IS THERE MORE UPSIDE?**

March's 6.4% gain, brings year to date gains to 23.11% for the year, a solid start to the year. A few investors have asked if the gains are done for the year? While the growth fund's start to the year has been impressive, our current portfolio of holdings continues to show strong and improving fundamentals, while still trading at discounts to their intrinsic valuations. We have talked about a number of the holdings in our previous letters and continue to see solid upside from the holdings as substantiated by increasing earnings, cash flows, alongside insider buying at several of the companies. This month we will discuss another of the fund's holdings that has recently performed well, but is likely to bring more upside this year, InterPipeline.

### **INTERPIPELINE, A CASE STUDY IN THE INEFFICIENCY OF PUBLIC MARKETS**

Interpipeline is one of Canada's leading mid-stream energy processors and pipeline operators, with a long history of building and operating high value-added infrastructure projects supporting Canada's economic development. Interpipeline operates in 3 primary segments: transportation of petroleum via pipelines and storage terminals, Midstream natural gas and liquids processing infrastructure, and finally value added marketing of petroleum and mid-stream products such as propane and NGL's.

Interpipeline has been instrumental in helping support the development of Canada's energy industry via building and operating key pieces of infrastructure that has allowed products to get to market since its start in the 1990's. Over the last 30 years, the company has steadily grown into one of Canada's largest infrastructure companies, with approximately \$1 Billion of EBITDA per year and a long history of dividends paid to shareholders. The company has demonstrated reliable operations over many years, with very stable cash flows and a self-funded growth model in place. The vast majority of the company's cash flows come from highly predictable cost-of-service or fee-based contracts, allowing strong free cash flows, allowing the company to invest in future growth projects.

The company's long history of building increasing streams of cash flows and dividends was recognized by a steadily increasing share price from its inception as a public company in 1998 at \$5 per share, to a peak share price in 2014 at \$38. Following 2014, with the general downdraft in the energy sector, the share price retreated into a \$20 to \$30 trading range reflecting a lower outlook for growth and expectations for no dividend growth until 2022, when their newest growth venture, the \$4 Billion Heartland Polypropylene project is complete and starts to produce cash. The \$20 to \$30 trading range was intact until the COVID crisis hit in early 2020, at which time to ensure near term liquidity Interpipeline decided to reduce the dividend temporarily to \$0.48 per share until the Heartland project comes online in 2022. Some investors panicked in the COVID frenzy of last spring, selling shares down to a very depressed \$6 per share. As with the rest of the energy sector the shares recovered somewhat from the March lows, but they still traded at depressed values for the balance of the year, trading between \$10 and \$14 per share.

Interestingly, lost in the COVID panic of 2020, was that the key Heartland Polypropylene project continued to be built over the course of the year and continues to progress towards completion in 2022 at which time it looks to add some 50% to Interpipeline's cash flows and enterprise value. The project should take Interpipeline's EBITDA from roughly a \$1 Billion run rate to approximately \$1.5 Billion, a substantial value add.

This project is a very compelling project, which will take advantage of an oversupplied market in Western Canada for Propane (which sells at a huge discount to the global market) and converts it into a key petrochemical product, Polypropylene. Exporting Propane to global markets from Western Canada is expensive and means the selling price of propane in Western Canada is low. Polypropylene on the other hand is relatively easy to export to global markets and can be sold close to world prices with very little discount to transport. The Heartland project basically taking advantage of the depressed prices of Western Canadian propane to convert it into a more valuable product that can realize world prices. This project will generate a nice economic return for Interpipeline starting in 2022.

We took advantage of the depressed price for Interpipeline in 2020 to add to our investment as we see substantial upside for the shares as other investors realize the shares are substantially undervalued simply due to the value of Interpipeline's steady base business in pipelines, processing, and marketing which generate \$1 Billion per year of EBITDA. But this ignores the upside from the Heartland project which will start producing in 2022.

Evidently, we weren't the only astute investors to pick up on the substantial opportunity presented by the public market's myopia with respect to Interpipeline. One of Canada's largest private investors, Brookfield, also saw the substantial opportunity and accumulated a substantial stake last year as well. And recently in the first quarter, seeing the huge upside opportunity remaining for Interpipeline, Brookfield made an opportunistic takeover bid to take over the entire company at a price of \$16.50 per share. The bid substantially undervalues, what we believe is a company that is worth in excess of \$30 per share. We, along with other astute investors will vote against the takeover bid and expect to continue to benefit from a stream of rising free cash flows from this company in future years. The Brookfield bid is opportunistic and should be rejected. Look for more positive news to come from Interpipeline over the coming months.

Interpipeline, represents just one of the many great, but seriously undervalued holdings in the growth fund. 2021 has started to see the values on some of these great investments start to rise and we expect more gains to come in the coming periods.

## INSIDER BUYING... CONTINUED IN MARCH

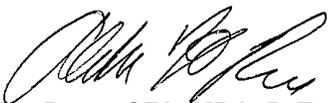
As in prior months, we continue to see insiders buying stock at a number of our portfolio holdings, as executives see the same opportunities that we do. Most prominent insider buying during March was seen at Kelt Exploration, PrairieSky Royalty, Tourmaline Oil, Suncor Energy, Tamarack Valley Energy, and PHX Energy, 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.

## April 30th... Next LP Closing

The next closing for the NR Conservative Growth Fund LP is April 30th, 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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