June marked a very tough month for both the market and the fund, with the fund dropping 12.76% and the general markets dropping around 9% for the month. This brought fund returns for the first half of 2022 to up +4.53%, which are substantially better than the general market (TSX down -9.85%, S&P 500 down -19.97%). The June pullback was dominated by a general panic in the stock market as investors focused on rising inflation, interest rates, and the increasing potential for a recession in the next year. Markets sold down across the board, with almost all stocks down during the month in the double digits, these pullbacks were only partially offset by gains coming from our short positions, which all made money, offsetting some of the pullback.

Historical Performance	1 yr	3 yr	5 yr	10 yr	ITD
NR Conservative Growth Fund LP	9.75	15.83	8.76	9.06	9.06

Returns as of June 30, 2022

HOW DID WE MANAGE A POSITIVE RETURN IN THE FIRST HALF?

Given the large drops from the general markets, a couple clients asked how we were managing to make money in a difficult environment, where the vast majority of stocks have been falling. The answer comes back to sticking with the process that has made the fund successful for the last 17 years. While the discipline of investing in superior businesses that trade at a discount to their intrinsic value does not work every single year, over the long term it generally outperforms the market and most other managers. We focus on buying superior businesses that trade at a discount in the short term for some reason or another. We then generally hold them until the market (other investors) come to their senses and revalue those businesses to their true values.

We focus on the long-term value of the businesses and don’t get distracted by the various manias that seize hold of the vast majority of investors during the shorter term. While those manias can sometime generate some exciting short-term gains, almost always if they are not supported by strong financial underpinnings they will later lead to some substantial losses for investors who were suckered in by the media headlines of the day. It is just such an environment that is occurring in 2022 for investors as the hyped up stay at home COVID winners of 2020-21 are now turning out to be just businesses like many others and not the hyper-growth pots of rainbow that some investors thought last year.

The growth fund has stuck with strong businesses that generate large and increasing amounts of free cash flow in future years that are overlooked by many market participants. Many of these stocks in recent years have been in sectors that some investors consider unsexy and that are not worthwhile. The best example of this has been large investments in energy, many of which we have discussed in recent letters. This sector has been overlooked and continues to be overlooked by the vast majority of investors due to a perfect storm of factors which have been building over the last decade. Below we will refresh the case why energy is such a great place to invest even in the current environment.

ENERGY’S OUTPERFORMANCE SET TO CONTINUE

The reason the fundamentals for energy continue to be so strong are:

1) Humanity’s ever-increasing standard of living has been based on every increasing energy consumption that has allowed increasing automation in advanced civilization that has made life ever better for humans living in advanced or advancing economies. Examples are cars instead of walking or horses, vacations flying to Europe instead of a horse buggy to a country retreat outside the city, automatic dishwasher and washing machine instead of hand washing, 2,800 square foot air-conditioned houses instead of small, uncomfortable houses. By some measures, the increased automation in our lives is the equivalent of having 5 servants working for each of us. Every place you look, most people’s lives have improved, but it has come thanks to every increasing energy consumption, initially coal in the 19th century, followed by oil in the 20th century, followed by natural gas and nuclear late in the 20th century.

2) Today global energy consumption continues to increase to support an increasing global population, an increasing proportion of which are attaining middle class (meaning they start to use a lot more energy), and generally increasing per capita energy consumption.
3) While, thanks to man's inventiveness we have found more ways to harvest new and different sources of energy, unfortunately oil, gas, and coal continue to power the vast majority of today's high standard of living. Advances in the last several decades mean more and more power is now being generated from solar, wind, geothermal, and some other sources of "green" power. However, while we are continuing to advance these "green" technologies, they currently are still not growing adequately to offset the increasing use of oil, gas, and coal. While North America has largely weened itself off coal generated power and converted to a mix of natural gas, nuclear, wind, solar, and geothermal, other parts of the world continue to increase their consumption of coal to generate electricity. China is probably the worst culprit here as they continue to build more coal powered power plants every year than North America has remaining.
4) Political policy and social attitude toward the largest sources of the world's energy (oil, gas, coal, and nuclear) has become increasingly negative over the last decade thanks to 50 years of plentiful and cheap energy with no shortages. This complete security has led to complete "lack of understanding" of how important energy is to our every day lives and standard of living as most people born after the 1970's cannot even remember a time when they had to worry about how or if they could heat their home of fill their car with gas/electrons. This has led to increasingly anti-development policies by governments banning or restricting resource development. Just a few examples of the thousands of misguided government decisions are Trudeau cancelling the Northern Gateway pipeline a decade ago, Biden cancelling the Keystone XL pipeline last year, Germany shutting down their nuclear reactors to import Russian gas, and numerous countries banning "fracturing" technology.
5) The net effect of the Political and social pressure has hit home with the energy industry, which has "heard" the message from our politicians and substantially reduced reinvestment in the energy sources that are the foundation of our high standard of living. Over the last last decade the oil and gas industry has substantially reduced re-investment in the industry which would otherwise sustain the steady oil and gas deliverability we have become accustomed to. The cumulative underinvestment over the last decade runs in the trillion of dollars. In 2022 we are seeing the first glimpses of what are likely the first stages of our first energy shortage since the 1970's. The general public view that OPEC or Exxon can just turn a valve and increase production is completely wrong. Correcting this situation will take Trillions of dollars of investment and more importantly a change in government policy to permit development of resources in a reasonably timely manner.

From an investment perspective, the energy sector was the worst performing sector for the 10 years leading up to the spring of 2020. This poor performance was the confluence of a decade of overinvestment in the industry combined with a massive technological breakthrough (horizontal wells combined with multi-stage fracturing) that opened up huge new reserves of oil and gas. A glut ensued driving prices down and driving investors away from the sector. Some investors can only remember the energy sector as a bad sector never to invest in. That has changed in a massive way thanks to the change in fundamentals, but many investors have not yet understood the shift that has taken place.

The improved fundamentals have caused prices to rise substantially and I would suggest it will take a decade of shortages and high prices ahead for us to work through and solve the supply problem we are now facing. Throw on top of this, what now appears to be a fundamental change in the 70 years of post war peace we have witnessed with the unprovoked Russian attack of a sovereign Ukraine. Russia is the world's "Resource Marketplace" supplying more than 10% of many of the world's key economic commodities, including the economic backbones of oil and gas. Should the conflict continue or escalate, the risk that the stock market seemed to react to for energy stocks in June (concern that prices could weaken due to recession) is the wrong concern. The market should be worried that energy prices could and likely will move much, much higher.

So while the fundamentals for energy stocks are as strong as they have ever been, the valuations of the companies relative to their profit generating capability are now at the lowest I can ever remember seeing. We have witnessed M&A activity and privatization activity to start to accelerate in the sector as private capital and other energy companies are only too happy to take advantage of the low valuations to buy undervalued shares for themselves as some shareholders have not taken note of the changed fundamentals for the sector. Recently, we saw Continental Resources receive a bid to take the company private from its founder, Harold Hamm and we are seeing continuing increased share buybacks and increased dividends from almost all energy companies. The prospects for the holdings in the fund are fantastic and we expect excellent returns going forward.

ADDITIONAL INSIDER BUYING IN JUNE

Once again, June saw insider buying at a number of our portfolio holdings. During the month, we saw corporate insiders at Whitecap Resources, Tourmaline Oil, Profound Medical, Acuity Ads, and Neo Performance Materials buying stock in their own companies as they see the same substantial upside opportunity that we do. Buying of stock by insiders at our companies is just one more point of support for the value opportunity of our holdings, as these are the very people that know their businesses best.

JULY 31st... NEXT LP CLOSING

The next closing for the NR Conservative Growth Fund LP is July 31st, 2022. 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

Commissions, trailing commissions, management fees, performance fees, and expenses all may be associated with investment funds. Please read the offering memorandum before investing. The indicated rates of return are the historical annual compound total returns net of fees and expenses payable by the fund (except for figures of one year or less, which are simple total returns) including changes in security value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The rates of return are used only to illustrate the effects of the compound growth rate and are not intended to reflect future values or returns on investment in an investment fund.

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