June saw the fund finish flat in what was a generally positive month for the stock markets (TSX up 3% and S&P500 up 6%). Performance was held back by a puzzling pullback in our largest energy holdings, Freehold Royalties and Tamarack Valley, in what was an otherwise positive market. Near term gains in the stock markets this year have been almost entirely driven recently by large gains from the mega-tech plays of Apple, Microsoft, Alphabet, Meta, Tesla, Nvidia, Amazon, Netflix, and in Canada Shopify (of which we own 2, Microsoft and Alphabet).

While these mega-tech stocks have had massive upside moves of 40% to 200% year to date (some justifiably on good results and reasonable valuation, others not so reasonably), the vast majority of the rest of the stock market has had a relatively unimpressive showing and in certain areas, with some stocks actually haven fallen despite some very strong fundamentals (Freehold and Tamarack Valley being typical value stocks that have fallen this year, despite trading at large discounts to intrinsic value and having excellent outlooks while paying attractive dividends). This has dragged back 1 year performance for the fund to just up +6.99% in the last year compared to 10.57% for the TSX and 19.53% for the S&P 500.

As we enter into the second half of 2023, we expect a return to rationality by the market at some point similar to what we saw in 2022, when the market demanded that there needed to be a link between profitability and stock valuations, that rewarded our portfolio with large outperformance. History shows that while in the short-term the market can act like a voting machine, chasing today's hot story, in the long-term the market is a weighing machine, that actually rewards those companies that make sustainable earnings and cashflow.

FREEHOLD ROYALTIES AN EXAMPLE OF MARKET IRRATIONALITY

The fund's largest holding, Freehold Royalties, fell 4% in June and is down 15% this year, despite paying an 8% dividend and sporting an almost 15% free cash flow yield. The company has spent the last 2 years under a new CEO, paying out an increasing stream of dividends to shareholders, all the while continuing to profitably reinvest roughly half the company's earnings into acquiring many other attractive energy bearing properties. Meanwhile the company has continued to maintain an under-leveraged balance sheet with debt running at roughly just about half of annual free cash flows. The company is one of the lowest cost producers in the energy sector thanks to its royalty business model, with production costs of only $4 per barrel of production, which will make money for shareholders in any business environment.

2022 was an excellent year for the company, producing over $300 million of free cash flow. While 2023 has seen slightly lower commodity prices, free cash flow in 2023 will likely again be over $200 million, before a likely return to a new record level of free cash flows in 2024. Currently, the stock market is trading on short-term downside momentum in the energy sector, as uneducated momentum investors sell the falling energy stocks regardless of fundamentals to buy the rising mega-tech stocks that are now extremely pricey.
Freehold is in great shape and bound to attract attention eventually from the market with its 8% dividend yield and 15% free cash flow yield. If public market investors are too slow to recognize the value in the company, it is likely that eventually another company, pension fund, or private equity fund will make an approach to the company with a premium to take over this irrationally valued company. This would be a possible outcome similar to what we have seen with other fund holdings in prior years, when competitors have been only too happy to come in and scoop up long-term generators of prodigious amounts of free cash flow.

So while this very large holding in the fund has been the largest reason for the funds pullback this year, investing discipline and experience has taught us that fundamentally undervalued assets always eventually get discovered, so we will continue to own this outstanding company and collect a sustainable 8% dividend (that could be increased) for shareholders until either the market values the company reasonably or a buyer comes in and takes advantage of the markets irrationality. Meanwhile, Freehold Management have similarly been puzzled by the under-valuation and have been buying stock for their personal portfolios as well. Freehold will make the fund a lot of money in the coming year. This is a table-pounding buy at these levels.

While we have discussed Freehold this month, very similar discussion could be made about the other holdings in the portfolio, but given it is the #1 holding in the fund, we felt it was the best subject for this month's letter. We think the fund will do very well in the coming periods.

ADDITIONAL INSIDER BUYING IN JUNE

Once again, June saw insider buying at several of our portfolio holdings. During the month, we saw corporate insiders at Baytex Energy, Superior Plus, Tourmaline Oil, Freehold Royalties, AutoCanada, and NeoMaterials 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, 2023. 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

Historical Performance	1 yr	3 yr	5 yr	10 yr	ITD
NR Conservative Growth Fund LP	3.54	24.40	9.24	7.88	8.74

Returns as of June 30, 2023

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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The comparison presented is intended to illustrate the historical performance of the Fund as compared with the historical performance of a widely quoted market index or a weighted blend of widely quoted market indices or other investments. There are various important differences that may exist between the Fund and the stated indices or other investments that may affect the performance of each. The objectives and strategies of the Fund result in holdings that do not necessarily reflect the constituents of and their weights within the comparable indices. Indexes are unmanaged and their returns do not include any sales charges or fees. It is not possible to invest directly in market indices. Certain statements contained in this communication are based in whole or in part on information provided by third parties and Arrow Capital Management has taken reasonable steps to ensure their accuracy. Market conditions may change which may impact the information contained in this document.

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