December was a frustrating end to an up and down year. The fund fell 0.67%, to end the year down 3.19%, lagging the broader markets that were largely driven upwards this year by a narrow selection of technology megacaps. The TSX rose 3.91% during the month to finish up 11.75% on the year. December saw a generally up market, where most of the market rose, with energy being the only sector falling during the month as many market participants decided to exit their energy positions going into year-end.

2023 marked only the 4th down year in the 19 year history of the fund. While a frustrating year, we continue to outperform our benchmarks and the vast majority of our competitors over the long-term with a 3 year return of 67.32% (or 18.72%/year annualized) versus the TSX of only 31.62% (or 9.59%/year annualized). Since the inception of the fund in 2005 we have returned an annualized performance of 8.68%/year versus the TSX returns of 7.04%/year. Given the strong fundamentals of our holdings, we believe the fund will add to its record of strong outperformance in 2024.

OUTLOOK ON 2024

After an up and down 2023, what do we have to look forward to in 2024? After several years of monetary policy tightening from the Central Banks with interest rates rising from practically zero to about 5%, it appears the banks are now done with the majority of their tightening. Inflation looks like it has stabilized and is starting to fall, but the bad news is economic growth has also started to slow and some economies appear to be in recession already.

With a slower economy, 2024 is likely to be a much tougher year for corporate profits and since the stock market level is a product of corporate profits times a multiple of profits, the general market is likely in for a choppy year. The vast majority of market gains in 2023 came from a handful of mega-cap technology stocks in 2023 that rose on a combination of stronger profits, but also on a lot of expansion of the multiple applied by the market to those earnings. With current interest rates, we are not going to see multiple expansion for these mega-cap tech stocks in 2024, so we find it likely that many of these 2023 winners are going to trade down or sideways this year and given their large weighting in the stock market indices, the indices are likely in for a tougher year.

With those cautionary comments said, the market remains a collection of individual companies, many of which have their own business dynamics, and each of which is recognized or not recognized by the market. We talk every month of a different stock in the portfolio and why it has a compelling case irrespective of economic conditions and what the “crowd” is doing to drive the general markets. The growth fund is a collection of these individual investments that experience their own level of stock market and valuation volatility, but that each have unique and generally growing investment attributes that over the long-term will get recognized.

During 2023, our 3 largest holdings (Freehold Royalties, Enbridge, and Polaris Renewables) all had excellent years from a fundamentals perspective, yet due to a stock market that was dominated by momentum and macro investing all three stocks fell in value during the year. These 3 stocks did not have the “characteristics” that momentum and macro investors desired last year, so some of these investors sold the stocks to buy the stocks that were working irregardless of the fundamentals of the companies. While we have seen this irrational behavior before in our long history in the markets, we do know that eventually companies that are misvalued (over or under) by the markets eventually return towards what the long-term cash generating ability of the companies are.

Our top 3 holdings typified the type of year the whole portfolio had. While we did have a mix of stocks that went up and some that went down, outside of a few takeovers (Opsens, HS Govtech, Neovasc) almost all the stocks underperformed their fundamentals, making what were compelling portfolio holdings entering 2023, now table pounding buys as we enter 2024. We expect a return to rationality for the markets in 2024, and this will drive an excellent return for the growth fund.

SECURE SELLS 20% OF THE COMPANY FOR 49% OF THE COMPANY’S VALUE

The highlight of December was an important transaction made by Secure Energy in mid-December. Secure is a relatively new holding in the fund that we recognized as significantly undervalued a few years back. Secure runs 4 attractive and growing businesses: Waste Processing, Industrial Landfills, Metals & Industrial recycling, and Chemicals. Thes businesses are consistent cash generators that have a track record of growth. The company has grown from startup some 20 years ago to a multi-Billion dollar enterprise paying an attractive dividend of $.40/share (4.3% at year end) that will continue to grow.

As a result of an acquisition made a few years ago, the Canadian Competition Tribunal ruled that Secure was required to sell 30 of its Waste facilities to ensure adequate competition in the Canadian market. Secure stock fell after the tribunal announced this forced divestiture as short-term speculators who did not understand the value of the assets, speculated that the company would have to sell the assets at hugely discounted prices to competitors. We used this correction to add to our position earlier this year.

However, on December 13th, Secure announced that it had sold the 30 facilities (which generated roughly 20% of the company's EBITDA) to US competitor, Waste Connections for $1.15 Billion cash. Prior to the transaction Secure's market capitalization was $2.35 Billion. Basically the company sold assets generating only 20% of the company's EBITDA for cash equal to 49% of the company's market capitalization. This underlines just how undervalued Secure was and continues to be.

The $1.15 Billion of cash will be received from Waste Connections early in 2024 and will be used towards a combination of lowering debt, share buybacks, re-investment in organic growth and potentially accretive acquisitions. While the stock gained 17% in December on the back of the transaction, the company continues to trade at a large discount to both the market and competitors. Even after the transaction the stock trades at only about 6 times EBITDA, while competitor Waste Connections trades at more than double that multiple.

Given the low valuation of the stock, we are urging management to invest a substantial portion of the cash being received into a buyback of this vastly undervalued company. Buying back 10% of the outstanding shares at these levels would require just 24% of the proceeds from the sale and be very accretive to both EPS and EBITDA/share, which should help more investors realized just how undervalued Secure is. Look for more good returns to come from this top 10 holding. Secure is just the latest example of how, even in a relatively expensive market, bargains are available to investors willing to dig for the overlooked investment opportunities.

ADDITIONAL INSIDER BUYING IN DECEMBER

December again witnessed insider buying at several portfolio holdings. During the month, we saw corporate insiders at Tourmaline, Spartan Delta, Mullen, Illumin, and Tamarack Valley 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.

JANUARY 31st.... NEXT LP CLOSING

The next closing for the NR Conservative Growth Fund LP is January 31st, 2024. 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	-3.19	18.72	13.65	6.77	8.68

Returns as of December 31, 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.

This document is provided as a general source of information and should not be considered personal, legal, accounting, tax or investment advice, or construed as an endorsement or recommendation of any entity or security discussed. Every effort has been made to ensure that the material contained in this document is accurate at the time of publication. Market conditions may change which may impact the information contained in this document. All charts and illustrations in this document are for illustrative purposes only. They are not intended to predict or project investment results. Individuals should seek the advice of professionals, as appropriate, regarding any particular investment. Investors should consult their professional advisors prior to implementing any changes to their investment strategies.

Certain statements in this document are forward-looking. Forward-looking statements (“FLS”) are statements that are predictive in nature, depend upon or refer to future events or conditions, or that include words such as “may,” “will,” “should,” “could,” “expect,” “anticipate,” “intend,” “plan,” “believe,” or “estimate,” or other similar expressions. Statements that look forward in time or include anything other than historical information are subject to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in the FLS. FLS are not guarantees of future performance and are by their nature based on numerous assumptions. Although the FLS contained herein are based upon what Arrow Capital Management and the portfolio manager believe to be reasonable assumptions, neither Arrow Capital Management nor the portfolio manager can assure that actual results will be consistent with these FLS. The reader is cautioned to consider the FLS carefully and not to place undue reliance on FLS. Unless required by applicable law, it is not undertaken, and specifically disclaimed that there is any intention or obligation to update or revise FLS, whether as a result of new information, future events or otherwise.

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.

This document is not to be construed as a public offering of securities in any jurisdiction in Canada. Offering of units in the L.P. are made pursuant to the Confidential Offering Memorandum (offering memorandum) only to those investors in all jurisdictions of Canada who meet certain eligibility or minimum purchase requirements. Important information about the L.P. including the L.P.’s fundamental investment objective, is contained in the offering memorandum, a copy of which may be obtained from Arrow Capital Management Inc.

This document is confidential and is intended solely for the information of the person to which it has been delivered. More information about the Fund can be found on our website www.arrow-capital.com. Published January 2024.