Hope everyone enjoyed the holiday season and were able to recharge for 2024! Below is a review of 2023 and some thoughts into the new year. As always, please reach out if want to chat - markets, golf, pop culture, etc....

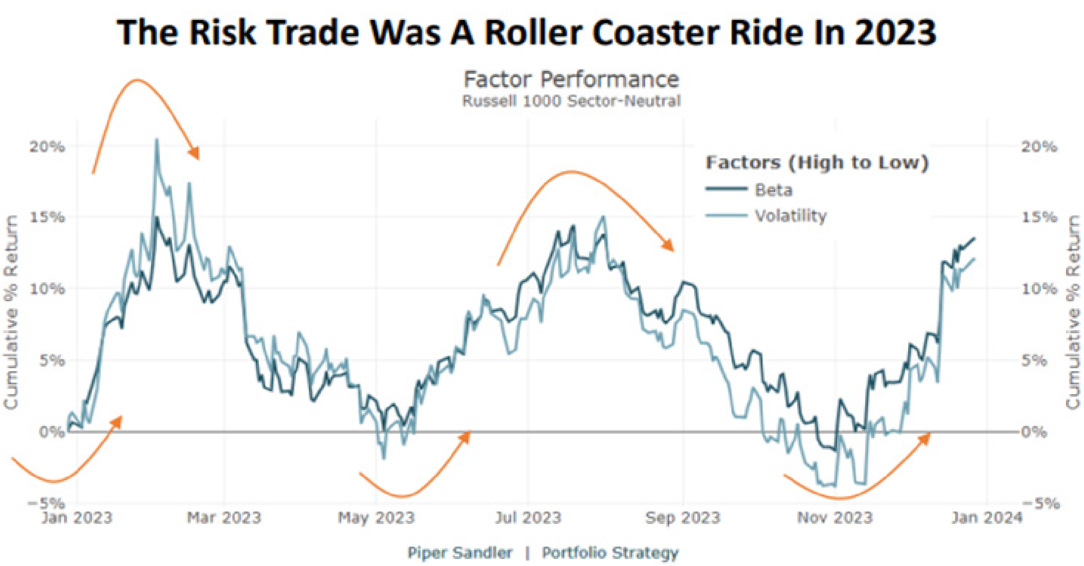
The S&P/TSX CAD and S&P500 CAD returned 11.75% and 22.90% respectively in 2023, compared to 2.96% for the Fund.

Despite the strong market returns, 2023 was not an easy year to navigate for active managers…including ourselves. It was a roller coaster of a year.

2023 - What Happened?

The year kicked off with a massive short cover rally that persisted to mid year, as 2022 losers became winners again. In between, we had a regional banking crisis, with a number of banks failing, and the government having to step in with another liquidity injection. This pushed more capital into the biggest names, as these once again became the safe havens. But what was once called FAANG, are now being monikered the Magnificent 7…ie Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla. As ChatGPT and AI became part of the mainstream consciousness, it further fuelled the outperformance of Mag7, making up ~80% of total market returns at one point.

The market eventually stalled in July, as rates started to climb on fears of massive government bond issuances/higher for longer inflation. Hard landing fears came back to the fore and positioning once again became extremely bearish into October. This, however, was the dark before the dawn, as a blow off top in rates started a historic rally into year end, as the market narrative once again shifted, this time banking on the idea of peak inflation/peak tightening. The FED poured gas on this, providing a surprise dovish pivot at their December meeting. We ended the year with 9 straight weeks of gains, with the Russell going from a 52 week low to 52 week high in this span…the fastest on record.



Source: Piper Sandler

So, how did we navigate this roller coaster? Frankly, not great. As many of you know, we have been cautious for over a year on fears of a recession. Our thesis was simple - since WWII, every time CPI got above 5%, a recession followed, as the FED needed to tighten aggressively to break inflation. The recession call became consensus as we exited 2022, and as economic data stayed resilient, and inflation started to come off, calls for a soft landing became louder. Although we were surprised at the resiliency of the economy, we chalked it up to 2 factors: 1) unprecedented levels of stimulus that built massive savings, 2) pent up demand post covid. Our view was that as we cycled through these factors, the impact of FED tightening would start biting. This kept us extremely defensive for most of 2023, as we believed the worst was yet to come.

But, now the plot thickens…enter the FED at their December meeting. The prevailing market view was that this would be a non event, with no change to rates, and a reiteration of prior rhetoric. But, Chair Powell surprised us with a dovish pivot, now indicating that rates would be cut well before we hit their 2% inflation target. The market quickly priced in faster/greater rate cuts, and animal spirits have taken over from there. We think there's a real risk that we'll look back at this meeting as a policy error. To us, the FED may be doing exactly what it said it didn't want to do in declaring victory over inflation prematurely. That aside, with new information comes new action, and this pivot brings a new calculus to our investment perspective.

Thoughts into 2024

Although we continue to believe there is material risk of a recession, the FED's pivot could support markets for the foreseeable future, kicking a potential hard landing further down the road. In light of this, we are selectively adding risk to the portfolio. Specifically, adding to core fundamental ideas that continue to look undervalued and under-appreciated, ideally with a catalyst to unlock value. Thematically, we favour commodities and small cap cyclicals, and we would not be surprised to see Tech/growth underperform this year.

Here are a few examples of ideas we like:

Secure Energy (SES) - Secure is an energy infrastructure company that has been transitioning to a more recurring, stable business model. A key to this transition was the acquisition of Tervita, a mismanaged operation that it purchased out of bankruptcy. SES was well into their integration when the competition bureau surprisingly ruled that they were required to sell 28 facilities for competitive reasons. This depressed the stock, as the market assumed they would garner a low multiple, being a forced seller. In December/23, SES sold these assets for ~7x EBITDA ($1.1B) to Waste Connections, exceeding expectations, and accretive to the 5.5x it was trading. This solidifies management's credibility, and sets the company up for a further re-rating, with the potential for a substantial issuer bid in between. SES is now one of our largest positions.

Pollard Banknote (PBL) - Pollard Banknote is a leading manufacturer of lottery tickets. The company is a multi generational family business, with the family still owning a significant insider stake. With high barriers to entry and high free cash flow conversion, we like the characteristics of the business. During covid, inflation squeezed margins and the stock was hit as a result. But the worst is now behind, and the company is passing costs through, as contracts come up for renewal. With this, we are in the midst of a margin expansion story which we believe has not fully played out.

Cineplex (CGX) - Cineplex is the dominant film entertainment company in Canada. in late 2019, CGX agreed to be bought by Cineworld for $34/sh. However, the deal fell through due to covid and Cineworld eventually filed for bankruptcy. CGX had to fight through covid lockdowns and an inflated debt load. This depressed the multiple and sentiment on the stock. As we come out on the other side of covid, operations are on the path to normalization and asset sales have significantly improved the balance sheet. We see potential for a credit upgrade and reinstatement of a dividend and this should help re-rate the stock from the current 6x EV/EBITDA multiple. Finally, we still think there's takeout optionality, as other strategic players see the value that we see. Some recent media speculation has alluded to this.

Commodities - this is a theme we've liked longer term on the potential of a market regime shift. We however will be tactical around positioning levels. Coming into the new year, we believe commodities could outperform, as supply disruptions and years of underinvestment result in higher prices. An accommodative FED policy could further buoy this group which ultimately may prove to be problematic for the FED and a re-emergence of inflation. We've added exposure as we exit 2023.

Uranium - we have been bullish on Uranium for a number of years on the potential supply/demand squeeze post the

Fukushima disaster. We finally saw this theme inflect in 2023, with uranium prices up 80% for the year. We now believe we are in a new bull market for uranium, and we've built a basket of names in the sector, the largest of which is the Sprott Uranium Trust which tracks the underlying Uranium price.

As we look back on 2023, we've gained some perspectives. Over our years in capital markets, our investment style and philosophies have evolved. We are fundamental stock pickers at heart. But, given how market structure has progressed, we believe that positioning, technicals, and sentiment can be more dominant drivers of price, especially in times of heightened economic uncertainty. Explicitly for this reason, we've designed the portfolio to be flexible in employing fundamental and tactical strategies, as we assess risk and opportunity. In evaluating 2023, we may not have spent enough time on the micro, as our resources were outweighed to macro. We're looking to take a more balanced approach in 2024.

Thanks again for your interest in the Fund and here's to a healthy and happy 2024!

Sincerely,

Chung Kim
Portfolio Manager
Arrow Capital Management Inc.

Historical Performance	1 yr	3 yr	5 yr	ITD
Exemplar Performance Fund Ser F	2.96	5.29	9.74	7.45

Returns as of December 31, 2023

Commissions, trailing commissions, management and performance fees and expenses all may be associated with mutual fund investments. Please read the prospectus 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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More information about the Fund can be found on our website www.arrow-capital.com. Published January 2024.