DEAR VALUED SHAREHOLDER,

Investors have experienced a gamut of emotions over the last year. On the one hand, the swift but severe recession and subsequent stock market plunge terrified us. On the other, the incredible v-shaped recovery has made us uneasy and question the sustainability of current asset prices. As we search for answers, Wall Street pundits work endlessly to promote a narrative around every gyration in the market to make it seem more predictable than it really is. Perceived clarity about the future is a misconception and we as market participants must accept this. Sometimes it is best to simply shut out all the noise, think for yourself, trust your process, and make peace with the uncertainty.

I want to thank our patient shareholders for sticking with us through an historic and volatile year. Our equity value on a per share basis grew to $4.83, an increase of 11.3 per cent from the prior year driven by a commendable 31.8 per cent return on our deployed capital. As we look forward, we will continue to execute on our business objective and deploy our cash balance in a disciplined manner, consistent with the foundational principles in which this business was built. Good things come to those who wait, and we will work tirelessly to execute on our shared vision to build a preeminent Canadian investment company that we as shareholders can be proud of.

Causality Is Overrated

The events over the course of 2020 have been nothing short of extraordinary. The world was shaken by the exogenous shock of COVID-19 which rapidly escalated into a global pandemic and pushed economic activity to unimaginable lows. In the second quarter, the U.S. experienced its worst drop in real GDP in over 70 years, declining at an annualized rate of 32.9 per cent[1]. Yet, the sustained economic impact of the pandemic was broadly overestimated. Fears of a systemic meltdown went unfulfilled, cyclical stresses quickly turned to resilience, and the recovery was far stronger and came much sooner than expected. In the very next quarter, the U.S. economy experienced its biggest GDP gain in history, increasing at an annualized rate of 33.4 per cent.[1]

The stock market experienced similar extremes. After hitting an all-time high on February 19, 2020, the S&P 500 plummeted over 35 per cent to its intraday low on March 23, 2020, only to launch over 70 per cent from those lows to quickly end the shortest bear market in US history. The index finished the year up 16.3 per cent.[2]

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1 Oaktree Capital, Mar. 4, 2021, Memo: “2020 in Review”

2 Data taken from Stockcharts.com

This cycle's idiosyncrasies have many people speculating about what drove the gap between expectations and reality – and whether this gap will continue. The sharp rebound in risky assets amidst a fragile economic backdrop has raised concerns of whether bubbles have formed, or whether the strength of the markets can be explained by rapidly changing fundamentals as the vaccine rollout accelerates.[3]

Whether or not the market is at a critical juncture remains to be seen. But what should be clear – especially in a year like 2020 – is that nobody knows. Pundits and strategists may have interesting observations about the market and economy, but in terms of predicting the future, these so-called experts are usually clueless. Look at 2020 as an example: in December 2019, the median Wall Street forecast was for the S&P 500 to increase 2.7 per cent in 2020, a forecast error of 13.6 points (recall the S&P 500 was up 16.3 per cent for the year). Allowing forecasters to consider the impacts from COVID-19 did not improve accuracy either. By April, the median forecast was for the market to decline 11 per cent for the year, a forecast error of a staggering 27 points.[4]

This is not an anomaly because of the pandemic. Inaccurate predictions by market strategists are the norm. A study conducted by the Bespoke Investment Group concluded that, over the last 20 years (December 1999 to December 2019), the delta between the median Wall Street market forecast and the actual one-year market return was 4.3 points, which equates to a 45 per cent error.[5] I may not be a statistician, but with a forecast error as large as this, it is fair to conclude that the accuracy of most any market prediction is the result of pure luck.

If there is one thing that we are absolutely confident in at FAX, it is our inability to predict the future. Therefore, we leave the market speculation and macro forecasts to others. It is a distraction, and our time is better spent on understanding the businesses in which we invest. As part of our investment process, we painstakingly diligence each investment opportunity, taking the necessary time to recognize a company's potential and to assess the general direction of the business and the industry in which it operates. However, even the most rigorous diligence does not eliminate all the risks of buying a business (or a portion of a business). But focusing on our understanding of an asset's intrinsic value – rather than the market's current view of that value – puts the odds in our favour to be successful over the long term.

The distinction between an asset's worth versus the market quoted price is an important consideration for any long-term investor. While the markets are a discounting mechanism, which constantly adjust in real time to new information and changing expectations, market mood and behaviour can be as important to price as fundamentals in the short term. Today's market, which exhibits pockets of froth and frenzy, is a great example of behavioural finance where investor perception, rather than changes in apparent fundamentals, have driven prices of certain assets to dizzying heights. The persistent march higher in the markets has pundits anxiously hunting for cause and effect, perpetuating an incessant belief that there are clear and identifiable reasons as to why the markets are moving the way they are.

3 The Economist, Dec. 16, 2020, "What explains investors' enthusiasm for risky assets?"

4 New York Times, Dec. 18, 2020, "Clueless About 2020, Wall Street Forecasters Are At It Again For 2021"

5 New York Times, Dec. 23, 2019, "Forget Stock Market Forecasts. They're Less Than Worthless"

But there is never a single reason to explain market movement. Financial markets are complex adaptive systems, meaning that the movements observed in the markets fall somewhere between the domains of order and randomness. They are constantly evolving and never in equilibrium. Yet there remains an intensified demand from Wall Street, the media, and investors at large to protect the perceived orderliness in markets and to search for patterns that can convey meaning rather than randomness. And while security pricing is not merely random, there is a web of complicated and interrelated effects impacting a very large number of market participants each of whom have their own ever-adapting views, investment horizons, and decision-making processes.

The culture we have instilled at FAX has been predicated on the belief that you do not always need to pinpoint the cause of some market reaction. Causality is overrated. We take comfort in the fact that, while short-term movements in the stock market may be unknown, patterns manifest themselves over long periods of time driven by fundamentals. It is our determined search for those fundamentals that gets us up each morning to prudently allocate capital and deliver value to you, our shareholder.

It is essential as long-term investors to not be influenced by the market's movements. Investment legend, Seth Klarman, summed it up best: "You must think for yourself and not allow the market to direct you."[6] This is a creed we can stand behind.

Your Chief Executive Officer,

Blair Driscoll
March 25, 2021

6 Seth Klarman, 1991, "Margin of Safety: Risk-Averse Value Investing Strategies for the Thoughtful Investor"

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain information contained in this shareholder letter constitutes forward-looking information, which is information relating to possible events, conditions or results of operations of FAX Capital Corp. (the "Company", "FAX", "us" or "we"), which are based on the opinions, estimates and/or assumptions about future economic conditions and courses of action and other factors which are inherently uncertain. All information other than statements of historical fact may be forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "target", "intend", "could", "might", "should", "believe", and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook. Forward-looking information in this shareholder letter includes, but is not limited to, statements with respect to: the Company's view of current and future anticipated market performance and market conditions both in Canada and globally; the Company's investment approach, objective and strategies, including investment selection and due diligence process; the timing and pace of investment; the potential return and/or performance of the Company's investments; and the perceived opportunities relating to investments in small-capitalized companies.

Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes that the expectations reflected in the forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct. Some of the risks and other factors which could cause results to differ materially from those expressed in forward-looking information contained herein include, but are not limited to: the continued impact of COVID-19 on targeted investments, the economy and markets generally, as well as the identified risk factors included in the Company's public disclosure, including the Annual Information Form dated March 25, 2021, which is available on SEDAR at www.sedar.com and on the Company's website at www.faxcapitalcorp.com.

Although the Company has attempted to identify important factors that could cause actual events or results to differ materially from those described in forward-looking information, there may be other factors that cause events or results to differ from those intended, anticipated or estimated. Readers are cautioned that the foregoing list of risks factors is not exhaustive. The forward-looking information contained herein is provided as at the date of this shareholder letter, based upon the opinions and estimates of management and information available to the Company as at the date of this shareholder letter, and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law. Readers are cautioned not to place undue reliance on forward-looking information contained in this shareholder letter. For more information on the Company, please review the Company's continuous disclosure filings that are available on SEDAR at www.sedar.com.