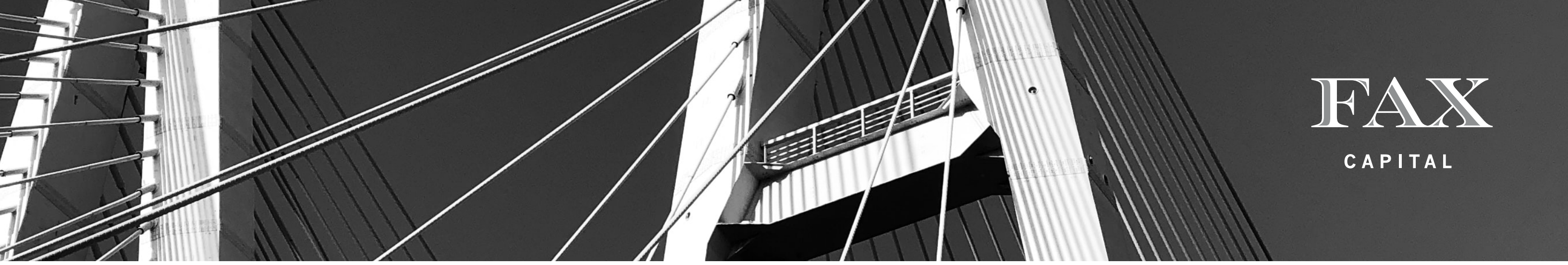

DEAR VALUED SHAREHOLDER,

In 2019, we founded FAX with an objective to invest in great small-cap companies and actively contribute as a leading shareholder to their long-term success. Our belief is that small-cap companies have been largely ignored by institutional investors, particularly in our Canadian public markets, and access to capital for these businesses remains a substantial problem. Investors have rushed to back private businesses, and companies are choosing to stay private longer. Other companies have just gotten bigger. This has distorted our capital markets, and the scarcity of funding for small companies has created highly attractive market inefficiencies that FAX is designed to take advantage of. Our investors agree. In late 2019, we spent 38 days visiting over 20 cities across Canada and had over 200 meetings with investment advisors, family offices and institutional investors. This effort raised $190 million of capital for FAX to execute on its stated business strategy, and we are now listed on the TSX. This is an incredible accomplishment, and I want to personally thank all of our shareholders for their tremendous support.

One of the founding principles of our company is permanent capital, or capital that is not subject to redemption-risk and can therefore be invested in perpetuity. As a publicly listed investment vehicle, FAX benefits from permanent capital. As such, our investment and liquidity decisions can be made strictly with the objective of maximizing long-term returns and are not compromised by the need to constantly raise additional capital or satisfy the needs of short-term investors. Market volatility, therefore, can be viewed as an opportunity rather than a risk. As of the date of this writing, the novel coronavirus (known as COVID-19), coupled with an on-going oil price war, has sent global markets into a tail-spin and has caused the fastest-ever bear market in history. The Canadian small cap index is at its lowest point since 2009, resulting in very attractive valuations. In these uncertain times, the stability of our capital is a distinct competitive advantage, and will allow us to pursue a range of opportunities unavailable to open-ended investment managers who are likely hoarding cash as a buffer to meet redemptions and to mitigate fire sales of underlying assets. FAX remains in an advantaged position.

When we speak with our shareholders, we consistently espouse the need to remain patient and to think long-term in order to harness the power of compounding and benefit fully from our structure. Our thinking is simple: markets can be risky in the short-term but in the long-term history has shown the market is much less risky. The following letter is intended to feature the symbiotic relationship between patience and investing. Please enjoy.

The Power of Patience

Patient, as an adjective, is defined as not being hasty or remaining steadfast despite opposition, difficulty or adversity. The value of patience is possibly the most critical quality that sets most successful investors apart from the rest of the crowd. It's not a coincidence that the world's wealthiest investors also tend to be the most patient ones. Warren Buffett is the personification of how patience and discipline can help you become wealthy in the stock market. That's because the vast majority of Buffett's wealth was created after he turned 50 years old. In fact, 99.7% of his USD $87 billion net worth was earned after his 52nd birthday![1] Was this due to Buffett only mastering the art of investing when he was in his 50's? Quite the opposite actually. His fortune was created from the stocks he bought carefully in his 20's, 30's and 40's, and having the fortitude to hold on to them. Compounding is enormously powerful, and being patient is the key.

Investing is a long-term discipline and the success of your investments should be judged based on years, and not months. Successful businesses are built over time. Usually a long time. Whether a company is investing to build a brand, to build a new manufacturing facility, or to build a new product, the one common denominator is that the return on those investments are paid back in years. If businesses are built over time, why then are they managed and judged over quarters?

Today, thinking long-term is increasingly more difficult. An accelerating pace of change creates unstoppable pressures for an on-demand economy, in which new technologies empower consumers to have access to information and services in real-time. And businesses cater to 'right now' consumers, with more devices and more apps that deliver instant gratification at the push of a button. For better or worse, consumer behavior is at the point of no return.

In an 'always on' economy, where many businesses are expected to offer tailored on-demand services to win, investors in those business are routinely told to think long-term. But how are you supposed to do this? Look at what you're up against - instant notifications of up-to-the-minute financial market moves sent directly to your mobile phone, headlines highlighting economic data releases or company earnings announcements, and market pundits on business television warning you about market-moving developments or geopolitical threats. The louder the noise gets, the harder it is to ignore. What's important to understand is that the constant flow of information compels you to shorten your time horizon and distract you from your ultimate goal – long-term returns. Paying attention to all the information available to you is impossible and overwhelming. Fortunately, you really only need to understand a small portion of it to be a successful investor.

1 medium.com/the-10x-entrepreneur/warren-buffett-has-made-99-7-of-his-money-after-the-age-of-52-71e2ce04c347

Investors today tend to look to the stock market as a quick means of making a profit. We dub this behaviour as ‘short-termism’: the tendency to invest in financial markets in periods that are so short, you substantially lower your odds of successful returns. The relative time scale for these types of investors tend to be measured in days, weeks, or months, which leads to increased trading activity, higher taxes, higher fees, and lower average returns. So, when Amazon’s Jeff Bezos - the man behind the company that can deliver almost any consumer good to your door within 24 hours at a click of a button – advocates that “it’s all about the long-term”, perhaps investors should listen carefully.[2] He did, after-all, build one of the world’s most valuable companies and became extraordinarily wealthy in the process. And he did so…slowly (Amazon was founded in 1994).

If investing is about being patient and choosing wisely - which is seemingly simple - isn’t it ironic that this proven and easy to understand strategy for successful investing is also the most difficult to adhere to? Buffett’s investment philosophy has been widely documented and published for decades, yet very few investors have been able to replicate his level of success. Thinking long-term is hard, which is why it’s so rewarding. Patience, as it turns out, is generally as important as intelligence when investing. As Buffett said: “Investing is simple, but not easy”.[3]

I think it’s important to define what we mean by ‘long-term’. The notion of long-term, after all, can vary amongst investors. So, what does long-term mean to FAX? For us, it does not mean buy and hold forever; it would be foolish not to re-evaluate your investments periodically as a matter of discipline. The lifespan of a company tends to fluctuate in cycles that often mirror the state of the economy and reflect disruption from technologies (which are accelerating at a rapid pace), and monitoring these trends over time is crucial. For instance, the average tenure for a company to remain a constituent on the S&P 500 has narrowed from 33 years in 1964 to 24 years in 2016[4], and expectations are for this to shrink further still. When we deploy shareholders’ capital, our intended investment horizon is at least 5 years, with a targeted goal of doubling our invested capital over that time period. We believe that this is a sufficient amount of time to take advantage of time-horizon arbitrage: that is, buying an asset with long-term value that is underappreciated by a market that is increasingly short-term focused. This is not to say we will not hold an investment longer – in fact, we hope to hold an investment for 10 or 20 years or more, but as a continuous exercise of discipline we gear our thinking of performance in 5-year rolling increments.

We created and structured FAX from the ground up as a long-term investment vehicle. Our goal is to find companies that are undervalued and have the potential to grow over many years, and if we do our job well there is little need to waste time trying to time the market. We are confident that if we take intelligent risks, we can achieve superior investment results. However, long-term investors must be prepared to weather market volatility, like the one we are currently experiencing. FAX has a permanent source of capital which allows us to endure greater volatility in returns. Ultimately though it is you as an investor who must ‘hold on’ through periods of uncertainty in order to capitalize on the benefits of our long-term investments. You need to be patient.

What does it take to stay invested? The answer may surprise you. Patient investing requires a bit of faith. Now let me explain. Unfortunately, certainty does not exist in the markets (as much as we all wish it did!), and without a sliver of faith, emotions can lead you to the exact wrong decision at the exact wrong time. Emotions are the enemy of investing. What, then, might you place your faith in to stick with an investment in FAX? In our minds, its really about four key items.

1. **The Opportunity** in Canadian small-cap companies that are under-followed and under-valued, having been largely abandoned by increasingly short-term focused institutional investors.
2. **An Investment Approach** that prioritizes rigour and discipline and is focused on owning only the highest quality, durable growth-oriented businesses within our mandate.
3. **A Team** that brings a proven track record together with decades of experience in business building, sell-side research, buy-side traditional asset management and private equity.
4. **An Alignment of Interests** between insiders and shareholders highlighted by internalized management, no management fees and an insider ownership base of 65%.

To be clear, we are asking our shareholders to have a level of healthy faith, which we expect will be accompanied by a dose of skepticism and scrutiny. Judge us by the evidence of the success of our investment strategy over the long-term. The markets are chock-full of highly intelligent participants trying to outsmart one another in the short-term. Don’t play that game. Stay calm, stay focused, and remain patient - through the good times and the bad. We certainly know we will.

Your Chief Executive Officer,

Blair Driscoll
March 24, 2020

2 Amazon: 1997 Letter to shareholders.
3 www.theglobeandmail.com/globe-investor/investment-ideas/15-of-warren-buffetts-best-aphorisms-on-investing-love-and-life/article4565121/
4 www.innosight.com/insight/creative-destruction/

Q&A WITH FAX

Why is internalized management important?

When a company is internally managed, like FAX, the costs to operate the business are relatively fixed, allowing the benefit of increased assets and increased scale to accrue to the shareholder rather than to the manager. Externally managed entities, such as traditional investment funds and some real estate vehicles, charge management fees to operate their businesses. On a dollar basis, these fees are often variable - when assets in these companies rise, so too do the management fees. Additionally, externally managed companies may not be fully aligned with shareholders because of their desire to maximize fees over share price appreciation. At FAX, we are fully aligned with shareholders as management and insiders own 65% of the shares outstanding.

Why is permanent capital important?

A permanent capital base allows an investor to take a true long-term view. During times of volatility, open-ended investment vehicles (i.e. non-permanent), such as mutual funds, hedge funds or ETFs, often face redemptions which force these entities to divest underlying assets during inopportune times. Permanent capital, by contrast, is not subject to redemption-risk and can therefore be invested in perpetuity, which allows an investment vehicle like FAX to hold an asset through times of heightened volatility to realize the investment's full return potential. Permanent capital is particularly important in small-cap investing, where companies are often illiquid and more exposed to short-term volatility risks. FAX is also differentiated from traditional private equity funds, which may have longer time horizons than open-ended mutual funds, but still have finite fund lives requiring a defined exit strategy. At FAX, we have the structure to hold great investments over the long-term.

Why focus on small cap companies?

Small-cap stocks have outperformed large cap stocks over the long-term. Since the turn of the century through the end of 2019, the Russell 2000 has achieved a total return of 7.7% vs the S&P 500 at 6.1%[5]. In Canada though, driven by a handful of dynamics, including asset manager consolidation and the rise of passive investing, institutional capital has increasingly been forced into larger and more liquid companies, leaving smaller companies overlooked by investors. This lack of capital has created pricing inefficiencies in the small-cap market, providing the foundation for diligent investors to achieve outsized returns. In our view, smaller companies present an attractive investment opportunity because of their lower valuations, higher growth potential and better access to senior management.

Why focus on Canada?

Over 90% of listed Canadian companies have a market cap below $1.5 billion but the vast majority of institutional capital focuses on the larger end of the market, which represents the remaining 10%[6]. Despite the breadth of the Canadian small-cap markets, the hollowing out of institutional interest in small-cap markets is particularly acute in Canada, where we have witnessed a structural shift of capital out of Canadian-focused small-cap funds and into larger global funds. Since 2014, Canadian-focused small-cap funds (managed by Canadian managers) have seen their assets decline 23.1%, as US and Global focused small-cap funds (also managed by Canadian managers), have seen their assets grow 76%[7]. As a result, pricing inefficiencies in Canada are more pronounced. We believe the continued outflows from Canadian-focused funds and consolidation of asset managers will provide a large set of opportunities for FAX to pursue in the small-cap markets for the foreseeable future. Our network and relationships are in Canada as well, which further enhances our edge.

What does Active Ownership mean?

Active Ownership involves the use of the rights and position of ownership, applied through shareholder engagement and voting activities, to work collaboratively with investee companies with the objective of growing the company's value. Active Ownership is not activism, which is often associated with an adversarial approach. Instead, Active Ownership involves supporting and augmenting already strong management teams, leveraging both our demonstrated track record as business builders and investors, as well as our industry network. FAX's engagement involves a structured process that includes active dialogue with management and the board, and may at times include having a representative on the board, or board observer rights, where appropriate.

Why a focus on public investments over private investments?

Our flexible structure, which enables a focus in both public and private companies, allows us to pivot towards the most attractive market opportunities. Driven by the wave of capital inflows into private equity, for the first time in recent memory, private valuations are higher than public valuations. Indeed, the record level of funds raised by private capital strategies in 2019 has led to concerns of overheated valuations in relatively illiquid private companies that are becoming the subject of bidding wars.[8] The situation may be exacerbated by the overhang of a record US$2.41B[9] of cumulative dry power within private capital that has yet to be deployed. Currently, we see better value in public markets and have weighted our capital and our focus accordingly. While our current focus is on public companies, we intend to ultimately allocate approximately 20% of our investable capital to private companies. Competition for private assets is high but we think there is an opportunity for FAX to 1) acquire private companies undergoing ownership transition that are looking for a permanent partner; 2) provide growth capital to private companies that are not large enough to go public; and 3) take orphaned public companies private at more attractive valuations.

5 Bloomberg, as at December 31, 2019.
6 Bloomberg, as at September 20, 2019.
7 Simfund Canada as of June 2019.
8 Pitchbook, 2019 Annual Private Strategies Report; McKinsey's Private Markets Annual Review, 2019; Bain & Company, Global Private Equity Report 2020.
9 Pitchbook, 2019 Annual Private Strategies Report.

What is your investment process?

Durable, repeatable, scalable investment organizations are defined by their investment process and we are committed to ours. Leveraging our background in sell-side research, buy-side money management, private equity investing and business building, we have developed a rigorous and comprehensive due diligence process that enables a deep understanding of the opportunity and risks associated with potential investments. As we intend to own our investments for the long-term, our mandate is focused on high-quality businesses - those that are durable, profitable, well-run growth-oriented companies. Our objective is to realize a doubling of our invested capital every 5 years.

Why is concentration important?

We intend to invest in 10-15 high-quality opportunities, with a minimum of at least six investments, and to do the work necessary to build the conviction to invest in only our best ideas. Traditional mutual funds tend to invest across 30 to 50 companies or more, with a view to diversify risk. This approach, however, detracts from returns as high-quality investments are simply not that plentiful. Wealth is almost always realized through focus and concentrated exposure to well-run businesses.

What is your approach to risk management and are there any businesses or industries that you avoid?

While FAX's portfolio is intended to be concentrated, we apply thorough risk analysis to each and every investment, and safeguard our portfolio by not concentrating in one industry sector, one geography or one business theme. Led by our disciplined investment criteria, we are unlikely to invest in resource extraction industries because of their poor returns on capital and unpredictable cash flows. Also, we are unlikely to invest in early stage companies that are not profitable and have not demonstrated a track record of durable and predictable earnings.