

DEAR VALUED SHAREHOLDER,

When it comes to stock market valuations, there wasn't much positive to say in 2021. Throughout the year, the market continued its relatively steady rise and, on most measures, equities were not only expensive relative to history but near historic extremes. But trying to time the market based on how expensive it trades relative to history is not a winning strategy, nor is the tendency to believe that markets reaching new highs is a signal that stocks are overvalued. However, while no valuation indicator is perfect at predicting future stock market performance, elevated valuations have proven to be linked to a higher probability of lower long-term forward returns.

This expectation for weaker forward returns tempered our eagerness to deploy capital throughout 2021. Caution was warranted, and in the first half of the year we deployed \$56 million of capital versus only \$9 million in the second half. Our investment returns were similarly bifurcated. FAX's portfolio delivered an annualized unlevered IRR of 33% in the first half of 2021 versus an annualized negative 7% IRR in the second half, as misguided market expectations started coming back to reality. Our book value per share (BVPS) peaked in the second quarter at \$5.45 and ended the year at \$5.20, growing a respectable 8% year-over-year.

The famous American stock trader Jesse Livermore once said, "There is a time to go long, a time to go short, and a time to go fishing."¹ The latter half of 2021 certainly felt to us like a time to go fishing. As a result, we exited the year with approximately 30% of our assets held in cash in search of a good deal. We've become more optimistic early in 2022 that those good deals may soon be here. High valuations combined with geopolitical instability, the threat of persistently high inflation, and a more hawkish Fed has given the market jitters, pushing many markets into bear territory.

Our cash has been an important ballast to offset recent market volatility. We estimate that had FAX been fully invested on July 1, 2021 through to February 28, 2022, shareholders would have lost an additional 20 cents in BVPS.² Our decision to retain a material cash balance appears to have been a sensible one.

¹ [Jesse Livermore, AZ Quotes.](#)

² Assuming an investment in existing portfolio holdings on a pro rata basis.

The punchbowl of free money and zero interest rate policy that has been feeding the bull market and allowing valuations to reach historic highs appears to be nearing an end and the party has quieted down. The market faces several obstacles in 2022 – valuations remain rich and year-over-year economic and corporate comparisons will be more difficult than the subdued 2020 pandemic numbers that were lapped in 2021. We've reiterated to our shareholders that we cannot predict the nature or timing of the next crisis, or whether we are at the end of the existing one. We can, however, rely on the durability of the business fundamentals of our current holdings, choose to trust the markets and its favorable long-term prospects, and continue to commit to the benefits of discipline, patience and perseverance.

Just as the market can become overwhelmed with greed, it can also succumb to fear. This 'herd behaviour' has been a hallmark of markets for centuries. It has been said that the stock market is the only market where things go on sale and all the customers run out of the store.³ Our promise to you, our shareholder, is that when the markets do go on sale we will move decisively against the herd, stay focused, and prudently look for high quality investment opportunities to enhance long-term returns.

Your Chief Executive Officer,



Blair Driscoll
March 29, 2022

³ [Cullen Roche, posted on Twitter, @cullenroche, August 24, 2015.](#)

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.