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## The Takota Income Value Portfolio – an update

### Disclaimer

This issue of *Reflections* is NOT a recommendation to invest in the Takota Income Value Portfolio. It is only an expose of our experience to date at applying Intrinsic Value principles to income generation. These views are solely ours, and may and will evolve with time.

### Background to a new portfolio

For some time now, we have lived in a world of constrained yields. With extremely low rates from traditional income generating securities like Treasuries or GICs, many investors have turned to the world of "income investing products" where various strategies are being applied to generate, or at least show a potential for, higher rates of return. Unfortunately and as usual, as soon as a sector becomes popular it becomes heavily marketed with all that this implies in terms of overcrowded opportunities, overpriced securities, and misapprehended risk – in short, potential dangers.

In this though we saw opportunities and following requests from some investors we launched in March of last year a new portfolio focused on using intrinsic value investing principles to generate income while not disregarding the opportunity for some capital growth.

By combining our value investing mindset together with broad diversification and our experience at further limiting risks with various techniques, we felt well prepared to focus on income generating securities and turn their inevitable future challenges into profitable income investment opportunities.

### The Takota Income Value Portfolio after 18 months

And so was born the Takota Income Value Portfolio. It is composed of income generating securities and is designed to be of low risk and volatility by virtue of its broad diversification and the inclusion of certain arbitrage (insurance) techniques to further limit risk when applicable.

I am pleased to report that after one year and a half of operation (March 2016 to September 2017) the gross return<sup>1</sup> of this portfolio has been exactly 28.7%. We are extremely pleased with this return, especially as it was accomplished with fully 50% of the portfolio in cash equivalents over the entire period - a consequence of being very discriminating in our investment selection. Truly a great risk adjusted return, and as far as we know one unmatched amongst income strategies.

You will find overleaf a list of all the transactions closed out over the entire 1.5-year period. They should give you a sense of how we have accomplished this great return while allocating no more than 5% of account equity to any one opportunity, and while being only invested at approximately 50% during the entire period.

For full disclosure, I use this Income Value Portfolio in my own personal investment strategy, which has four pillars:

- The first is money in the bank in GICs, money market funds, etc.
- The second is this very Income Value strategy.

<sup>1</sup> Gross return: return before the application of management and performance fees



- The third is our long-term capital accumulation strategies (our other portfolios).
- Finally, the fourth leg is my short term trading operations.

a lower risk, lower volatility aspect .If you would like to discuss our approach to income generation or this Income Value strategy, please contact me directly. I would be pleased to answer your questions.

Given its past behaviour, this portfolio could also be used by investors seeking an overall investment plan that has

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**Takota Income Value Portfolio - Performance of closed positions  
March 2016 (inception) to September 2017 (continuing holdings not included)**

Security	Position Description	Total Return at Sale
Polaris Infrastructure Inc.	Long Equity	+104%
Direct Cash Payments Inc.	Long Equity	+82%
Fortress Investment	Long Equity	+75%
Fortress Paper 7% - 2019	Long Bond	+64%
Gateway 144A 8.5% - 2020	Long Bond	+18%
Athabasca Oil 7.5% - 2017	Long Bond	+15%
Dominion Diamond Corporation	Merger Arbitrage	+15%
Syngenta AG	Merger Arbitrage	+10%
Emergent Capital 15% - 2018	Long Bond	+8%
Temple Hotels Convertible 8% - 2016	Long Bond	+6%
New Media Investment Group Inc.	Long Equity	-4%

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***Past performance is not indicative of future results of any particular investment. There can be no assurance that a consistent return will be achieved, and an investor may in fact incur losses.***

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