

2019 was surely an interesting year for me. From the market's perspective, the KGB II equity long-only special situations fund I started on Jan 1, 2019 continues to do well, returning 43.1% for the year. Over the fund's life, it has returned 734% to investors or a 21% CAGR.

This is a substantial return for investors, but it has to be considered alongside a 31% total return for the S&P 500 in 2019. I invest in mostly US and European situations, so the S&P 500 is a good benchmark. 2019 returns also have to be looked at in the context of 2018's big year-end sell-off. Big winners for the year include First Data (credit to KKR), Heico, United Rentals, Eastman Kodak, Maxar Technologies (credit to Rich Carty and OTPP), Constellation, Site One and US banks. Losing investments include Sprint and Auto Canada.

We did well out of the gate in 2019 with the takeover event in our substantial position in First Data. Over the course of the year, it paid to own growth stocks in the first 9 months. We correctly trimmed many growth stocks in July and then bought value-oriented situations in the fall. Value out-performed in the fall/winter period. I correctly bought cyclicals in September in the run-up to a US/China trade deal. In general, I had a lot more time to focus on the market in 2019 and I like to think that helped. I have generally stayed away from IPOs as I have found valuations stretched. That said, I am currently seeing value in some under-performing companies that IPO'd in the last few years. I kick myself for exiting Auto Canada at the wrong time, but I was starting to worry about the viability of the company. I am pretty bullish on our position in Maxar Technologies.

The Trump Administration continues to stimulate the economy, much of which is coming from short-term stimulus designed to help repo market mechanics. I think this stimulus alongside many other Trump policies is helping reduce market volatility and enhance market returns. I feel the market should be relatively stable this year until we get closer to the fall US elections. I am watching the US Senate race closely, as I think Democratic Senate wins could be negative for stocks. I am carrying a 15% cash weight currently in an effort to be defensive/opportunistic. I am seeing opportunities in cyclicals and certain special situations. The Boeing 737 and Brexit resolution situations are quite interesting to me. I would say the market looks overbought, but not "irrationally exuberant". I am pretty unsure on what to do about energy, so I haven't been buying it. I would note that there has never been a US recession without a spike in oil.

I wish everyone a prosperous 2020.

