PATHFINDER

Real Fund

Semi-Annual

DECEMBER 31, 2023

The Real Fund invests in assets exhibiting specific qualities that allow for long-term growth beyond inflation.

PERFORMANCE

The Real Fund had a net return of 20.6% in 2023. Inflation was -1.1% as measured by our Custom Cost of Living Index and 3.4% as measured by the Canadian Consumer Price Index.

Effective January 1st, 2024, we are renaming the Pathfinder Real Fund the Pathfinder Conviction Fund. We believe the new name better describes the strategy which we elaborate on in our Investment Outlook.

Performance									December 31, 2023
						Annualized			
	2023	2022	2021	2020	2019	3 Yr	5 Yr	7 Yr	Incpt*
Pathfinder Real Fund	20.6%	-6.5%	20.7%	6.5%	15.3%	10.8%	10.8%	8.6%	7.6%
Inflation Measures									
Custom Cost of Living Index*	-1.1%	10.5%	16.7%	0.7%	1.9%	8.5%	5.6%	3.5%	2.5%
CPI	3.4%	6.5%	4.8%	0.7%	2.2%	4.7%	3.4%	3.0%	2.4%

Source: Bloomberg Markets LP, Pathfinder Asset Management

In 2023, stocks saw significant divergence in performance across size, sector, and style. Megacap technology stocks, characterized by the so-called Magnificent Seven, dominated gains within equities. The extent was such that the financial media describes 2023 as a difficult year for investors unless you owned this narrow set of companies.

It was quite a different experience for us: we unfortunately did not have a meaningful position in megacap technology stocks; however, we did not have a difficult year. Our focus has been on more traditional parts of the economy, "boring" sectors but where we believe we have an analytical edge. Performance was driven by strong results in companies found within those sectors. For the year, we had seven positions deliver a total return over 50%, adding 14.9% to our gross portfolio return. Conversely, we had four positions incur a negative return, subtracting 2.9% from our gross return. We highlight some of these positions in our Asset Allocation section below.

ASSET ALLOCATION

COMPANIES: 83% WEIGHT

Below, we highlight the two largest contributors to our 2023 return and the largest contractor.

- **Stella-Jones Inc. (+61% in 2023)** produces utility poles, rail-ties, and residential wood structures in North America: as traditional and "boring" a business as there is. What "excites" us is the company's organic growth and margins, especially relative to consensus expectations. In the first nine months of 2023, Stella delivered 15% organic sales growth in its core businesses and 18.5% EBITDA margins. This compares to the consensus expectation 1.5 years ago that Stella was a no growth business with just ~12% EBITDA margins. We have owned Stella for over a decade but made it our 2nd largest position in 2022 when our research suggested the security was strongly mispriced.

- **Fairfax Financial Holdings Ltd. (+54% in 2023)** is a property and casualty insurance company engaged in the associated investment management of insurance proceeds: another traditional and "boring" business. The company had a difficult decade marked by low insurance margins, low returns in fixed income, and poor results in equity investing. However, business fundamentals have strongly improved driven by higher margins in the insurance business and significantly higher returns in fixed income. Like Stella Jones, recent earnings power has strongly exceeded street expectations. We initiated our investment 21 months ago when our research suggested the security was strongly mispriced, it is one of our largest positions.

- **Aritzia Inc. (-42% in 2023)** is a fashion brand and retailer. Company revenues have almost tripled from pre-pandemic levels, a fantastic accomplishment. However, this level of growth has stressed the company's infrastructure, and the company reported a significant erosion in margins this year. Margins were much lower than expectations which drove the share price lower. We believe most of these issues are transitory and that Aritzia can return to historical margins over time. When combined with still significant store growth, we believe ATZ is attractively valued here. We have owned Aritzia at varying weights since 2018.

CURRENCIES/CREDIT: 10%

Higher interest rates have made fixed income more attractive on an absolute and relative basis.

- Element Fleet Management Corp. recently announced that it would be repaying its Series A and E preferred shares at face value. We had invested in both series at a discount to face value based on this thesis. The Series A were paid on December 31, 2023 and we realized a ~13% annualized total return on the position.

HARD ASSETS: 3% COMMODITIES + 4% REAL ESTATE

We currently own a natural-gas producer and a high-quality operator of multi-family apartments.

INVESTMENT OUTLOOK

MANDATE REBRANDING – PATHFINDER CONVICTION FUND

Moving forward, we are renaming the Pathfinder Real Fund the **Pathfinder Conviction Fund.**

As a background to the original name, a major premise for the launch of this mandate was the flaws we saw in traditional return objectives like beating a benchmark or pursuing a nominal return. Without getting into the details, benchmarking exposes you to the top of cyclical industries and a nominal return can expose you to inflation. These flaws drove us to form a different investment objective: **just beat inflation over time.**

Based on that objective, it made sense to incorporate "real return" into the mandate name. We launched the fund in 2013 as the Partners' Real Return Plus Fund and changed the name to the Pathfinder Real Fund in 2018. However, we have found that both names provided ambiguity to our investment strategy, with some confusing the mandate with that of a real return bond, which is not the case. As a result, we are changing the name to better reflect our investment style.

Conviction is defined as "a firmly held belief or opinion" and it's a perfect reflection of our research process. Our objective is to form a firmly held opinion that is different, important, and right. Since inception, this has been the hallmark of our most successful investments and we believe it is what the fund has done best. We have often invested on the other side of controversial stocks or during major volatility (March 2020) and these have often resulted in our best investments. During peak controversy and volatility, we have found that making the right decision is predicated on the conviction in and accuracy of your analysis. Obtaining such has been our strategy. Here are some characteristics of the Pathfinder Conviction Fund:

1) **The fund takes concentrated positions in securities we believe are mispriced based on a proprietary thesis.**

2) Since we invest with conviction, this is a concentrated mandate.

3) While concentrated, the fund is diversified by ideas. Each investment is based on a different often uncorrelated thesis.

4) The fund is unrestricted by asset class, size, and marketplace. We focus on companies, industries, and securities we believe we have an analytical advantage in.

In terms of our investment outlook and how the mandate fits into this environment, we continue to believe that we are in an environment of dispersion and stock-picking (2023 is a perfect example). The world continues to deal with things we haven't seen ever or in a long time and this drives security mispricing. Security mispricing drives the opportunity to be a stock-picker which is a seemingly perfect environment for our strategy.

FINAL REMARKS

Speaking of events we haven't seen in a while, I'm saddened to comment on some recent events for my alma mater (Gonzaga University) and our men's basketball team. Events that hadn't occurred in a long while:

March 2016 – The last time the Associated Press ranking of the top 25 NCAA basketball teams didn't include Gonzaga, a streak that just ended.

January 2011 – The last time we lost to conference rival Santa Clara University, a 26-0-win streak that ended recently.

December 2005 – The last time we lost to in-state rival the University of Washington, that game was so long ago that I was there as a senior!

Gonzaga basketball has been a model of consistency. There are natural headwinds to being consistently good at college basketball as players naturally must leave due to graduation and/or professional aspirations. So, Gonzaga's ability to reload has been an astonishing accomplishment. Despite the setback this year, this alumnus believes this year's team is still good and with marquee games upcoming (Kentucky and Saint Mary's twice) as well as the potential to still win our conference tournament, the most important streak of all can hopefully stay alive. March 1998, the last time March Madness was played without Gonzaga in the field.

Thank-you for investing.

Christian Anthony, CFA | Portfolio Manager

"With each investment you make, you should have the courage and the conviction to place at least ten per cent of your net worth in that stock." – Warren Buffett

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Sources: Bloomberg, Pathfinder Asset Management Limited

Disclosure

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Changes in Leverage. We are increasing the asset ceiling to 2.0 times the market value of equity for Pathfinder International Fund and Pathfinder Real Fund to be consistent with Pathfinder Partners' Fund and Pathfinder Resource Fund.

For more information, please follow the links above to review the fund term sheets.

*All returns are time weighted and net of fees. Performance returns from the Real Fund are presented based on the Class C Master series. Inception and 2013 returns include the 10 months from inception in March 2013. Returns greater than one year are annualized. The custom cost of living and CPI provide general information and should not be interpreted as a benchmark for your own portfolio return. The custom cost of living represents an equally weighted (at inception) basket of Teranet-National Bank National Composite House Price Index™, UBS E-TRACS CMCI Food Total Return ETN ETF (FUD:NYSE), United States Gasoline ETF (UGA:NYSE) and Canadian import prices from Statistics Canada in Canadian dollars. We created the custom cost of living index to give investors another way to measure their cost of living. It has some differences versus CPI; for example, CPI measures shelter costs as the cost of renting a home versus the custom index which measures it as at the cost of purchasing a home. A bachelor may view renting as an accurate gauge of shelter costs. On the other hand, a mother and father who want to raise their family under the security of the same roof without the risk of forced relocation likely views home ownership as a more accurate gauge of shelter costs.

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