PATHFINDER

Conviction Fund

Semi-Annual

DECEMBER 31, 2024

The Fund takes concentrated positions in securities we believe are mispriced based on a proprietary thesis.

PERFORMANCE

The Conviction Fund had a net return of 13.4% in 2024. Inflation was 7.6% as measured by our custom cost of living index and 1.8% as measured by the Canadian Consumer Price Index.

Performance									December 31, 2024
						Annualized			
	2024	2023	2022	2021	2020	3 Yr	5 Yr	7 Yr	Incpt*
Pathfinder Conviction Fund	13.4%	20.6%	-6.5%	20.7%	6.5%	8.5%	10.4%	8.8%	8.1%
Inflation Measures									
Custom Cost of Living Index*	7.6%	-1.2%	10.5%	16.7%	0.7%	5.5%	6.7%	4.8%	4.0%
CPI	1.8%	3.4%	6.5%	4.8%	0.7%	3.9%	3.4%	3.0%	2.4%
Source: Bloomberg Markets LP, Pathfinder Asset Management									

Our portfolio incurred a consecutive year of double-digit returns; but this year, we lagged most major North American equity indices. We don't own the mega-cap technology stocks that dominate these indices and would expect to lag in an environment where these securities outperform, like they did in 2024.

Our portfolio is weighted to small and medium sized companies where we see compelling value. Our last investment outlook focused on the underlying value we see in this space and how it was beginning to draw the attention of corporate and private equity buyers. This continued to play out and after that outlook, we received an acquisition bid for our shares of Sleep Country Canada Inc., a privatization bid for our shares of The Westaim Corp, a redemption bid for both of the Fairfax Financial Holding preferred share issues we own, and a redemption bid for both of the Element Fleet Management Corp preferred share issues we own. These bids were at modest to meaningful premiums and combined to add 4.2% to our gross portfolio return this year.

Five of our larger positions, encompassing roughly one third of our total portfolio, had a ~0% market return for the year despite strong fundamental progression, in our opinion. While this acted as a drag to our 2024 return, we are not concerned as fundamental and market progression have always converged over time.

CONVICTION SPOTLIGHT

FAIRFAX FINANCIAL HOLDINGS LTD. CUMULATIVE FLOATING RATE PREFFERED SHARES SERIES D

We are continuing the conviction spotlight section of our semi-annual report, where we spotlight an investment, highlighting our thesis, and how the investment has played out. Our second writeup spotlights one of the preferred shares we owned that was redeemed this year: **Fairfax Financial Holdings Ltd Cumulative Floating Rate Shares Series D (FFH.PR.D: TSX).**

Preferred shares have properties of both an equity and a debt instrument and are generally considered a hybrid instrument. As a result, this security may surprise readers as this report has long advocated against owning fixed income, consistently highlighting our view that fixed income was priced for prospective real losses. However, fixed income became more attractively priced after incurring a structural price correction from 2021 to 2023. By 2023, we considered the asset class investable and began looking for potential investments. This eventually drove us to the Canadian preferred share market which had become one of the most ignored and seemingly mispriced markets.

The Canadian preferred share market is too small for most institutional credit investors and perhaps too complicated for individual retail investors. These securities have floating or rate reset features that result in the security benefiting from higher interest rates. Despite this, many of these securities traded down when rates went up, which piqued our interest. While many preferred shares are issued by companies with questionable credit quality, we researched a few that we believe have sound credit. One of those securities was the FFH.PR.D which was trading at a 23.4% discount to face value, yielding over 10%, and had tax-advantages over traditional income from bonds. We initiated an investment in the second quarter of 2023 with the following thesis:

1) Given the floating rate, this security immediately benefitted from higher interest rates.
2) **The security was mispriced from a credit perspective with FFH generating substantially better than priced cash flow coverage.**
3) There was a chance FFH could redeem the security at face value given it was still expensive capital for FFH at face value.

In this instance, our best-case scenario came through rather quickly as FFH announced it would be redeeming all FFH.PR.D shares at face value (which occurred on Dec 31, 2024). Upon redemption, we realized a total return of 48.5% on our investment: 30.5% from capital gains and 18% from dividends. When factoring our hold period of 1.7 years, this equates to a ~28.5% annualized return, a substantial spread to the ~4% annualized yield we could have earned from a Canadian treasury bond with the same duration. What makes this investment unique is we don't think we took much risk in earning that return: essentially earning a top performing equity return on fixed income risk.

FFH.PR.D is an example of opportunities that can arise in ignored areas of the market. Something we have noticed is that **industries will often correct what markets misprice.** When individual investors ignore and misprice an asset, the actual industry that security is a part of will correct the mispricing, this is what happened again here.

INVESTMENT OUTLOOK

THE FINACIAL MEDIA VERSUS OUR CAUTIOUS OPTIMISM

As we enter another year, the financial media is again highlighting a series of risks for investors. These include:

1) Interest rates and where they settle at;
2) Global trade and the potential for tariffs;
3) Inflation and whether it is actually controlled;
4) Wars and the potential for new ones;
5) Elevated debt levels for individuals, companies, and countries;
6) Changing control of government;
7) The economy and the potential for a recession;
8) Populism and growing civil unrest;
9) Tax rates and how they may change;
10) Elevated stock valuations relative to history.

If investors listened to the financial media, they would likely sell their investments on January 1 every year. Of course, this would have had disastrous results: significant forfeited investment gains, higher transaction costs, and much higher taxes payable. One of the most important roles in my profession is to ensure that clients retain emotional control, maintain a long-term outlook, and don't sell their investments on January 1 every year.

That's not to say that the risks highlighted by the media aren't real because they are real. However, the very fact they are being highlighted means these risks are known and at least somewhat factored into pricing. In addition, for whatever reason, the media prefers not to highlight constructive developments and almost never highlight bottom-up business fundamentals. It's bottom-up business fundamentals that you can have conviction in.

So as we enter another year, we again retain cautious optimism. Our optimism lays in the conviction we have in our proprietary bottom-up thesis for owning each of our businesses. Since unitholders will never see these highlighted in the media, we provide average statistics from our top 10 holdings below. As can be seen, our top holdings are: 1) concentrated in medium-sized businesses that are un-indexed and ignored, 2) trade at compelling valuations, 3) are doing smart things with their earnings (buying back shares), and 4) represent most of our portfolio. It's this combination that gives us optimism for our portfolio.

Conviction Fund - Top 10 Holdings	December 31,2024
Average Market Cap ($CAD B)	10.9
Average Fwd P/E	10.3
Average Net Reduction in Share Count over 5 years	10.3%
Weight in Total Portfolio	63.4%

Source: Pathfinder Asset Management

FINAL REMARKS

Every year, mutual fund trusts (like this one) calculate taxable events (realized capital gains, dividends, income, etc.) incurred during the year and distribute them to unitholders so that they can report them to the government for proper taxing. For Canadian unitholders, this is reported to them in the form of a T3.

There is no distribution from the fund this year, so unitholders don't need to worry about tax consequences.

Thank-you for investing.

Christian Anthony, CFA | Portfolio Manager

"Until you can manage your emotions, don't expect to manage money." – Warren Buffett

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Sources: Bloomberg, Pathfinder Asset Management Limited

Disclosure

National Instrument 31-103 requires registered firms to disclose information that a reasonable investor would expect to know, including any material conflicts with the firm or its representatives. Doug Johnson and/or Pathfinder Asset Management Limited are an insider of companies periodically mentioned in this report. Please visit www.paml.ca for full disclosures.

Changes in Leverage. We are increasing the asset ceiling to 2.0 times the market value of equity for Pathfinder International Fund and Pathfinder Conviction 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 Conviction 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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