

Conviction Fund

Semi-Annual

DECEMBER 31, 2025

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 24.9% in 2025. Inflation was -3.9% as measured by our custom cost of living index and 2.3% as measured by the Canadian Consumer Price Index.

Performance	December 31, 2025									
	2025	2024	2023	2022	2021	3-Yr	5-Yr	7-Yr	10-Yr	Incpt*
Pathfinder Conviction Fund	24.9%	13.4%	20.6%	-6.5%	20.7%	19.6%	14.0%	13.1%	10.8%	9.3%
Inflation Measures										
Custom Cost of Living Index*	-3.9%	8.0%	-1.2%	10.5%	16.7%	0.9%	5.8%	4.5%	3.4%	3.4%
CPI	2.3%	1.8%	3.4%	6.5%	4.8%	2.5%	3.8%	3.0%	2.7%	2.4%

Source: Bloomberg Markets LP, Pathfinder Asset Management

North American equity indices were again driven by major themes, gold and precious metals were the major driver in Canada (TSX Global Gold index +143% for year), while technology and AI again drove the US (NASDAQ +16% in CAD for year). It wasn't a great year for North American equities outside these themes, evidenced by the just 5% CAD total return in the equally weighted version of the S&P 500. We unfortunately had zero exposure to these themes.

Despite missing the major themes, our fund had a strong year, benefitting from more idiosyncratic developments in some of our core positions. Our largest position, Guardian Capital Group (+62% for year) was acquired at a meaningful premium. Aritzia Inc (+120%) and Badger Infrastructure Solutions Ltd (+107%) performed strongly on the back of a steep acceleration in profits. Finally, noise and volatility around tariffs allowed us to make new investments in mispriced securities that quickly corrected in price, this included Saputo Inc (+65% from March buy), Savaria Corp (+36% from April buy), and BRP Inc (+80% from May buy). Combined, these six positions contributed 16.9% to our gross portfolio return for the year. Negatively, Lululemon Athletica Inc (-50%) had a surprise decline in profits and was our worst performing investment, subtracting 1.3% from our gross portfolio return.



CONVICTION SPOTLIGHT

GUARDIAN CAPITAL GROUP INC.

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 fourth writeup spotlights a longtime holding that was our largest position before the announcement that it was being acquired this year: **Guardian Capital Group Ltd. (GCG.A: TSX)**.

Guardian Capital Group is a long-standing Canadian asset manager that was founded in 1962. The company had several business segments including asset management (private client and institutional), an insurance network, and a mutual fund dealer. We first met Guardian in 2013 and were impressed by management's competency and philosophy around capital allocation. This drove us to do more research, where we discovered a business quality we thought was underappreciated by the market. In particular, Guardian's insurance network was ignored because it made up <5% of total assets under management. However, we felt the insurance network was very valuable given its deep competitive advantages over peers, a strong reoccurring revenue model, and tremendous economies of scale potential. After completing our research, we presented Guardian to investment committee with the following thesis: **"We would own GCG for its quality hidden assets that are persistently undervalued in the market."**

We then monitor our thesis to manage how we can be wrong or right. The insurance network ended up having a tremendous decade, attracting a significant amount of new insurance agents while also acquiring peers at attractive prices. Combined the segment saw a >10x in revenue and a >20x in profit. Despite this, the market continued to mostly ignore the inherent value. This changed in November 2022, when Desjardins Group announced it would be acquiring Guardian's insurance network for \$600 million (~\$485 mm net to GCG), which was triple the market ascribed value to all of Guardian's businesses at the time.

After this sale, we continued to hold GCG on a thesis that there were still other quality hidden assets that were undervalued by the market. This value finally surfaced in August 2025, when Desjardins Group announced that it was making an all-cash offer to acquire GCG at \$68/share.

We invested in Guardian 12 years ago at \$14/share. Since that time, we have received \$9.16/share in cumulative dividends, and our shares are being acquired at ~\$68.00/share: implying a cumulative total return of 451%. We emphasize that our investment was not influenced by macroeconomic views. Our decision was based on our view of the business, management, and valuation. In the end, these are also the variables that made GCG a successful investment.

This is an example of an investment gone right and it doesn't always play out that way. However, this gives insight into our research process: our goal is to form a thesis that is correct but also different. With Guardian, we ended up investing in a quality growing company at a value price, a deal you can only get if you have a different view.



INVESTMENT OUTLOOK

CAUTIOUSLY OPTIMISTIC THE ENVIRONMENT, NOT THE MARKET

Our last three outlooks have emphasized the same themes.

There are macroeconomic and valuation dynamics that keep us cautious. This caution is largely focused on large capitalization companies that dominate the indices that many consider “the market”. Our caution stems from:

- 1) Interest rates and where they settle at;
- 2) Global trade and 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 large capitalization stock valuations relative to history;
- 11) Potential that AI-related spending is in a bubble.

However, as we look at the current environment, there are dynamics occurring that keep us optimistic. We believe the current environment is enhancing security mispricing, especially amongst companies that are underrepresented in indexes. These dynamics include:

- 1) The extremity of passive investing, where a new majority amount of capital is allocated without regard to business fundamentals;
- 2) The amount of un-indexed securities that have been orphaned by passive investing, creating compelling valuations in this space;
- 3) The emergence of economy-changing technologies like AI, that can enhance or disrupt a businesses’ fundamentals; and
- 4) The reversal of multi-decade trends in interest rates and globalization, that can similarly reverse a businesses’ fortunes.

In sum, the emergence of economy-changing technologies and the multi-decade reversal of major trends has created an environment where it’s more important than ever to be doing insightful fundamental research. At the same time, we have the highest amount of capital being allocated without regard to fundamental research (passive investing). This creates security mispricing’s and with our strategy of taking concentrated positions in securities that are mispriced, we are optimistic that there are opportunities in this environment.

So as we’ve been highlighting to clients, we aren’t that optimistic about the overall market, but we are optimistic about the current environment as it provides opportunity to find individual mispricing’s. With this outlook, our focus is on finding these mispricing’s while managing how we can be wrong.



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

“Price is what you pay, value is what you get.” – 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 CMC 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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