

Conviction Fund

Semi-Annual

JUNE 30, 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 10.0% in the first half of 2025. Inflation was -2.3% as measured by our custom cost of living index and 0.7% as measured by the Canadian Consumer Price Index.

Performance						June 30, 2025			
	YTD	2024	2023	2022	2021	Annualized			
						3 Yr	5 Yr	7 Yr	Incpt*
Pathfinder Conviction Fund	10.0%	13.4%	20.6%	-6.5%	20.7%	18.2%	15.6%	9.3%	8.6%
Inflation Measures									
Custom Cost of Living Index*	-2.3%	8.0%	-1.2%	10.5%	16.7%	0.6%	6.9%	3.9%	3.6%
CPI	0.7%	1.8%	3.4%	6.5%	4.8%	2.4%	3.6%	3.0%	2.3%

Source: Bloomberg Markets LP, Pathfinder Asset Management

It was an eventful start to 2025 with the emergence of a global trade war, elevated tension in the middle east, growing civil unrest, and a weak US dollar. Against this backdrop, most major North American equity indices had flattish returns when measured in Canadian dollars.

Our portfolio posted a resilient return in this environment, benefitting from idiosyncratic developments in some of our positions. We had eight securities appreciate 20-40% because of separate developments, adding 8.6% to our gross portfolio return. Negatively, Lululemon Athletica Inc was impacted by tariffs and announced disappointing guidance for the year, detracting 1.2% from our gross portfolio return.

When markets focus on macroeconomic headlines, bottom-up business fundamentals tend to get more ignored. This creates security mispricing's that can be discovered if we exhibit emotional control and conduct proper due diligence. This is the topic of our investment outlook below and we highlight that it's actually a preferred environment for our strategy.



CONVICTION SPOTLIGHT

AUTOCANADA 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 first two writeups highlighted successful investments, but it doesn't always work out that way. Our third writeup spotlights a position that hasn't played out according to our initial thesis: **AutoCanada Inc. (ACQ: TSX)**.

ACQ is a multi-brand automotive dealership group operating in North America (Canada mainly). They sell new and used cars, conduct auto repair and service, and broker auto-related finance and insurance contracts. ACQ operates in a very fragmented industry where many dealerships are individually owned. As the second largest operator in Canada, we saw a competitive advantage in ACQ's scale, where it could extract efficiencies by implementing technology and homogeneous practices across its dealer network. We invested in ACQ in early 2021 with the following thesis:

- With its scale advantage, ACQ will gain market-share and efficiency, and extract further value from the consolidation of more dealerships.

After investing, we monitor our thesis to manage how we can be wrong or right. What our initial thesis failed to account for was the potential for higher interest rates. Automobiles are a product that consumers often borrow money to purchase (or lease) and thus auto sales are sensitive to interest rates. Simply, lower interest rates equal higher auto sales and higher interest rates equal lower auto sales. Interest rates increased significantly and structurally in 2022 which has resulted in lower than initially expected sales and profits for ACQ. As a result of this, ACQ is currently trading at a price below our initial investment, a poor result over the four years we have owned it.

Having said that, we have not sold our position. We have met with management multiple times to determine how the company will operate in this higher interest rate environment. We came away with a constructive outlook, with the company executing several initiatives to improve profitability:

- 1) The company is selling or closing its money-losing divisions.
- 2) The company believes it can strip out \$100 million of annual operating costs without impacting sales or customer satisfaction.
- 3) We believe these are attainable initiatives; as a result, we have added an operational turnaround to our thesis.

Early execution on these initiatives has been strong with the company already stripping out the majority of its targeted operating cost savings. When we combine this with a share price that is valued pessimistically, **we are constructive on ACQ at these levels and have maintained our investment**. However, the range of outcomes is wide and the path for interest rates from here is an important variable that's hard to get an edge on. As a result, ACQ is a smaller position in the portfolio.



INVESTMENT OUTLOOK

HOW PASSIVE INVESTING AND MACROECONOMICS HAVE IRONICALLY CREATED A STOCK PICKING ENVIRONMENT

We believe the market's focus on macroeconomic headlines, in addition to the emergence of passive investing, has, ironically, created a stock picking environment. In the current market, it's nearly impossible to ignore the constant stream of macroeconomic headlines. Global trade tensions, tariff impositions, and geopolitical instability have a dramatic effect on market sentiment, often causing broad market swings. The headlines surrounding such events can drive stock prices in ways that don't necessarily align with the underlying health or performance of individual companies.

The challenge here is that many investors, driven by fear or optimism generated by these headlines, may react impulsively. In turn, this can lead to mispricing of stocks—where companies with solid fundamentals are undervalued due to market panic, while weaker companies might appear stronger than they are because of short-term global optimism. We have noticed a meaningful increase in security mispricing's as a result of macro-driven markets, emphasizing security selection in today's environment.

These mispricing's are being compounded by the emergence of passive investing. In recent years, passive investing has grown significantly, with trillions of dollars now flowing into index funds and exchange-traded funds (ETFs). Passive investing strategies, by design, allocate capital to entire market segments rather than individual stocks based on their merit. This means that stocks in an index are purchased regardless of their underlying business performance. As a result, some companies that may be fundamentally weak (due to poor management, declining revenues, or high debt) can become overvalued, simply because they are part of a major index like the S&P 500 or the NASDAQ. Conversely, companies that don't fit the criteria for major indices, even if they are strong fundamental performers, might be overlooked or undervalued.

This phenomenon has created an opportunity for active investors to identify companies that are undervalued or overlooked by passive investors. By focusing on the long-term performance of individual businesses, bottom-up analysis can help uncover these hidden gems before they catch the attention of the broader market.

As a summary, the rise of macro-driven markets and the dominance of passive investing were expected to reduce the need for traditional stock picking. Ironically, this very shift has created a better environment for active stock pickers. As capital floods into index funds, price discovery becomes less efficient, particularly for smaller or less-followed companies. Simultaneously, heightened macro uncertainty and divergence in sector and company-level fundamentals mean that not all stocks react uniformly to economic changes. This creates opportunities to exploit mispricing's and differentiate between winners and losers. Thus, **while macro themes and passive flows dominate headlines, they have ironically amplified the value of micro-level analysis and stock selection.**



FINAL REMARKS

As passive investing continues to grow in popularity, we have found that our portfolio has become increasingly less concentrated in securities that are owned by passive investors. We are simply finding better deals in companies that aren't owned by passive investment vehicles. It makes sense given the environment we highlighted above.

We believe that most of our companies have strong fundamental outlooks and that these outlooks aren't accurately reflected in their share price valuation. It gives us confidence in the outlook for our fund.

Christian Anthony, CFA | Portfolio Manager

"Basically, price fluctuations have only one significant meaning for the true investor. They provide him/her with an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal." – Benjamin Graham

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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 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 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 CICI 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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