

2025 Full Disclosure

Over the coming years we want to advise investors that the Value Contrarian Fund **may** be more volatile than has been the case in the past. Here is our reasoning:

- 1) When your Fund is fully invested, we are subject to the full volatility of the financial markets. As we don't short stocks, cash is often the simplest, risk-free instrument to blunt stock market volatility.
- 2) Berkshire Hathaway, Warren Buffett's investment vehicle, represents approximately 26% of your fund's assets. We view this as a strong investment in all market conditions. Nonetheless, there will be years (like 2019 & 2020) where Berkshire underperforms the market and will impede your Fund's returns.
- 3) In general, a rising Canadian dollar and a weakening US dollar will negatively affect your Funds results, due to our significant U.S. holdings. Presently, the Canadian dollar is approximately 72.5¢. However, if over the coming years it rose towards the 75¢/85¢ level, this would add a stiff headwind to your fund's net results.

Predicting currency moves is about as easy as predicting the weather this time next year. **Good Luck!**

Benjamin Horwood
September 29, 2025

2025 Second Quarter
Value Contrarian Equity Fund

Dear Partners,

The stock market is a device for transferring money from the impatient to the patient.

Warren Buffet
Berkshire Hathaway

Are (AI) investors over excited ? My opinion is yes... I do think some investors are likely to lose a lot of money, and I don't want to minimize that... There will be periods of irrational exuberance.

Sam Altman – ChatGPT
Financial Times London
August 23, 2025

History also teaches that the battle to become an industry standard isn't necessarily won by the most technologically advanced player. Easy availability and flexibility play a role, which is why China's advances in open-source AI worry many in Washington and Silicon Valley...

This Darwinian life or death struggle will lead to the demise of many of the existing (AI) players... but breeds strong companies.

Raffaele Huang
Wall Street Journal
August 13, 2025

In hindsight, looking at the North American stock markets surge since late April, investors could have ignored the rampant negative Trump-Tariff news. Simply stated, the “experts” and financial press often get it wrong. In retrospect, things are never as good as they seem, nor as gloomy as the headlines would have us believe. Wall Street loves lower interest rates because they “goose” the economy even if they risk worsening the outlook for inflation.

In the tariff “wheel of fortune”, Canada, as a result of the existing NA Free Trade Agreement, came out a survivor, if not a bit shell shocked. However, the final outcome of the tariff wars, are still pending, subject to CUSMA negotiations into 2026. In the meantime, the burden of Trump’s tariffs have fallen disproportionately on the Canadian steel and lumber industries.

Often, investors need to ignore the excessive “doom & gloom” headlines. Tiny Israel is a perfect example. Here is a country the size of New Jersey, with only 10 million people, and practically no natural resources.

The Gaza War “narrative” on Israel has been so negative over the past two years, one could slice a knife through it. Yet, in 2025, the Tel Aviv Stock Exchange is among the best performing developed markets worldwide. Shocking, if one only listens to the BBC/CNN/Al Jazeera war headlines.

The Tel Aviv indexes have surged by more than 28% as of early September, far outpacing the TSX, S&P500 and NASDAQ indexes. Never confuse the performance of the stock markets with the geopolitical outlook.

You would expect, facing a seven-front war, the Israeli economy would be “on the brink of collapse”, as the Wall Street Journal recently put it. Instead, a surge in foreign buying has further fueled the rally on the Tel Aviv exchange.

This Israeli resilience is rooted in solid economic fundamentals, a debt-to-GDP ratio of about 60% and a world class high-tech sector underpinning its engine of growth. The recent sale of Israeli software firms Wiz and Cyber Ark were valued in the tens of billions.

Finally, years back, our Prime Minister had some “wise words” of investing advice to impart while Governor of the Bank of England. Advice that is particularly relevant today for Canadian investors. In 2019, a British fund that offered daily redemptions had to freeze \$6.3 billion of investor money. In a parliamentary hearing, then Bank of England Governor Mark Carney wisely remarked that funds that offer continuous redemptions, yet invest in (riskier) illiquid assets, are “built on a lie”.

According to the Globe & Mail, Canadian private real estate funds with at least \$16 billion in assets have had their redemptions halted or limited. (Private means they are not traded on a public stock market)

These private funds offer Canadian investors the “carrot” of higher rates of return because they are “illiquid” and invest in riskier real-estate loans/mortgages. But, only when the tide goes out, and interest rates exploded upwards, do investors get to experience the risks of what it’s like to swim naked!

The lesson, “caveat emptor” when investing in private investment funds that contain riskier, illiquid mortgage investments and construction or leveraged loans, wrapped in the illusion of either daily, monthly, or quarterly redemption promises, that can’t be met!

Today, there’s increased willingness by investors to ignore any bad news for now – complacency is a risk to this stock rally. Should inflation rise more than expected in the coming months, the Fed may not cut rates as much as investors had hoped for.

“Goldilocks” will hopefully stick around into 2026.

Second Quarter Performance:

But part of his (Buffet's) genius is he has built the company to do well after he is gone.

Steven Check
CEO – Check Global Management
July 13, 2025

The dollar has become the whipping boy of Trump 2.0's erratic policies.

Francesco Pesole
Ex Strategist – ING
Financial Times – July 1, 2025

(Today's) market is riskier than it used to be (based) on three important metrics:

First, it is much more concentrated in a handful of stocks... (the top five stocks make up 27.7% of the SP 500). Second, the stocks that dominate the market are heavily exposed to one big bet, on artificial intelligence... And third, everyone (loves) those stocks... and bound to go up, creating a form of groupthink vulnerable to a sudden reverse or any setbacks.

James Mackintosh
Wall Street Journal
September 16, 2025

While the stock markets may continue to rise in the months or years ahead, in our opinion, it's very likely that the lows of the next bear market will fall well below today's elevated levels on the Dow (46,397) and S&P500 (6,693). But only in hindsight will new investors know if we are witnessing today the classic hallmark of a "phoney" bull market.

Ben Horwood
Fund Manager – Value Contrarian
September 22, 2025

Meanwhile, if you own one ounce of gold for an eternity, you will still own one ounce at its end.

Warren Buffet
Berkshire Hathaway
2012 letter to shareholders

Your Fund ended the second quarter with a net asset value of \$4,409.12 per unit, an increase of \$47.32 from the December 31, 2024 net asset value of \$4,361.79 per unit [after distributions]. Year-to-date, June 30th, your fund returned: 1.1%

AI/AI/AI. The issue that keeps us and many fund managers up at night is whether, or how, the business models of the companies in a portfolio may disrupted by AI. Constellation Software and Booking.com are two sectors where the market feels that AI may be less than friendly to these business models. The winners and losers from the rise of AI will take time to play out, just as was the case during the initial stages of the internet boom, the automobile age, or the advent of television.

We've read that Canadian investors continue to overwhelmingly pile into the allure of U.S. big cap tech stocks. Years of outperformance has certainly led to "performance chasing." Long time Value Contrarian investors recognize that we have never been big fans of gold or most commodity stocks – cyclical businesses which we tend to avoid.

But down in the trenches, in 2025, Canadian equities have proven the better bet. The TSX index is outperforming the S&P 500 by a wide margin. The hot Canadian "resource" sector has been an important factor – especially gold stocks. Specifically, propelling the TSX higher in 2025 has been three sectors: Financials, +18.22%, Materials (mining + gold) +60.50% and finally, Information Tech, +20.46%.

Despite your Fund's quality portfolio, there will be periods when our non-traditional asset allocation will be "out of sync". Today, we are witnessing one such period. From experience, this usually occurs when the markets become more speculative or lackluster commodities become "rockstars" again. Past example – 1998 to early 2000, the dotcom-internet bubble years.

Our returns for the first half of the year were significantly affected by the rise in the Canadian dollar from 0.695 cents in late December, to 0.734 by end of June. In early April, something very different happened to the U.S. dollar. In recent history, when the financial markets were stressed (ex: Trump's tariff wars), there had been a "flight to quality" into the U.S. dollar. As a result, the U.S. dollar, in the past, often appreciated during these periods of uncertainty and financial stress.

Instead, in April, Trump's policies "dented the U.S. dollar as a hedge in times of stress." The U.S. dollar has been falling throughout 2025. Moreover, President Trump had an avowed apologist for a weak U.S. dollar subsequently installed on the Federal Reserve Board – Stephen Miran.

Another factor in 2025 contributing to a weaker U.S. dollar, has been the prospect of further U.S. rate cuts, thus making other currencies more appealing. Over the last 15 years, your Fund's performance has benefited from a strong U.S. dollar and a falling Canadian dollar.

With President Trump in office, the traditional playbook of a strong U.S.-dollar during a crisis may no longer work. In light of this new environment, your Manager took the decision during the second quarter to reduce the Fund's risk of holding a large U.S. T-bill position. As a result, we converted over \$6 million USD into Canadian funds. By the end of August, your Fund's total assets were basically split evenly between U.S. Dollar and CDN dollar assets.

One thing that we have learned over the years, it's not necessary to dive in at the very beginning of these "hyped up" technological revolutions. Rather, there will be ample future opportunities and bear market declines to provide AI investment openings. With time, investors will be better able to distinguish between the eventual winners & losers of this new technology. "Patience, my dear Watson."

Lots of groundbreaking news regarding Warren Buffett and Berkshire Hathaway shares during 2025. Since July, Berkshire's huge investment portfolio is having a great quarter, led by its largest holding, Apple. However, Berkshire's own stock continues to languish.

At Berkshire's Annual Meeting in early May, Buffett made a surprise announcement that at the end of the year he would be stepping down as the company Chairman, but remain a board director. Canadian Greg Abel is now set to take over as the CEO of Berkshire at the end of 2025. Buffett will transition to the role of non-executive Chairman.

What most are hoping for with Greg Abel, is a more hands-on approach. Abel is described as an "operator at heart" and is expected to be more hands-on with underperforming subsidiaries than Buffet was. He may also seek to create more synergies across Berkshire's diverse operations, while still preserving the Berkshire Hathaway culture.

From a peak holding of 31,000 Class B shares, over the past 9 months your Manager brought this position down to 20,000 shares. This represents at the end of June, approximately 26% of our Fund's assets.

As of last week, year-to-date, BRK.B was up 10.55% while the S&P 500 was up 12.89% (excluding dividends). How much of Berkshire's underperformance since May has been a result of his retirement announcement, is anyone's guess. Six months of performance figures does not produce a credible assessment. Berkshire stock is lagging for several possible reasons.

In August, the Financial Times argued that Berkshire is lagging the S&P 500, because it is moving with the S&P 500 Property and Casualty Insurance Sub-Index, as it has for years, since P&C is the company's biggest business unit.

Buffett's retirement announcement came as Berkshire stock was hitting a record peak in valuation. Thus, the stock's drop from \$540 might have been driven in part, by plain old reversion to the mean. (In plain language, the stock got ahead of itself)

“The tricky issue... is what it means for the company to lose Buffett’s incredible personal brand and charisma,” especially when it comes to getting “friendly deals”... and getting a “pass from regulators and the press” because “everyone trusts Buffet”.

There is also a lot more competition today from private equity firms who are more ready to engage in the bidding wars that Buffett shuns. Yet Berkshire has a huge advantage in other respects – the ability to easily undertake a \$200 billion share buyback. In a severe bear market, these shares could, based on past history, easily drop below book value. Short-term pain and astute capital allocation could ultimately pay off for Berkshire shareholders, regardless of any mega acquisitions that may or may not present themselves.

Historically, Berkshire has often lagged over the years when the overall market was rallying amid a greater tolerance for risk. As the TV talking heads would say; “Today is a risk-on market.” Growth stocks are surging and many value stocks are lagging.

Mark Twain once said: “history doesn't repeat itself, but it often rhymes.” In our opinion, the speculative excesses of 2025 are beginning to feel more and more like 1999 and early 2000, before the tech bubble peaked in March 2000. Here is the score card of Berkshire vs. the S&P 500 during that late 1990s “risk on” period.

In simple terms, the S&P 500 dropped (-49.2%) from its March 2000 peak to its October 2002 bottom. While the Invesco QQQ Nasdaq 100 ETF dropped approximately (-80%) from its peak in March 2000 to its bottom in August 2002.

Returns Comparison:

	<u>BRK.B</u>	<u>S&P 500</u>
1999 (risk on)	0.5%	21.0%
2000 (risk off)	6.5%	-(9.1%)
2001 (risk off)	-(6.2%)	-(11.9%)
2002 (risk off)	10.00%	-(22.1%)

Berkshire, with its \$350 billion cash hoard, is one of the most defensive big cap stocks around. If book value rises more than expected when the company reports its third quarter earnings in November, the stock could rally nicely during the remainder the year.

The other day, we added to one of our existing positions, a Canadian lumber distributor trading at less than 50% of book value. Book value is presently over \$24 – our purchase was made under \$12. Importantly, the company's book value is still growing, despite the perpetual softwood tariff wars.

Potential positive company catalysts include; a pickup in the housing market, a tariff compromise, a few hurricanes in the U.S. south, or lady luck strikes and a takeover offer appears. We can afford to wait, as long as the company's book value has the potential to grow.

Outlook

In my 35+ years of investing, widespread “retail investor” market interest/ participation, has normally been a red flag and precursor to investor losses in the year ahead. Time will tell if the reputation of the 2025 retail investor remains intact... or this “red flag” indicator maintains its credibility.

Ben Horwood
Fund Manager – Value Contrarian
August 28, 2025

Stocks are not showing any fear about tariffs, they’re not showing any fear about policy uncertainty related to stability or instability in Washington , they’re not showing fear any longer about inflation.

This is a market that’s pricing in (in) Goldilocks.

Lisa Shalett – Morgan Stanley
Chief Investment Officer
Wall Street Journal
July 27, 2025

Stock market volatility is an almost foregone conclusion over the next 6-12 months, as a result of valuation levels and widespread “retail investor” participation.

There is also little reason to believe there will be a quick resolution to Canadian-U.S. free trade issues, especially after the U.S. initiated an early (2025) review of the CUSMA agreement ahead of the 2026 deadline. One way or the other, we believe a CUSMA deal will eventually be reached with the Americans. But, not before Trump extracts his pound of flesh on the Canadian automotive sector, or whatever sector that catches his fancy!

Bank of Canada Governor Tiff Macklem has warned that the Canadian economy has yet to see the full effects of Trump's trade shift. Should CUSMA be doomed and the shield of free trade be lost, Canada's economic well-being would certainly face a serious threat. How many foreign investors are presently sitting on the sidelines waiting until the "fog" surrounding the CUSMA agreement clears?

Although the financial pundits continue to remind us of the coming economic "life-jacket" of further short-term rate cuts, these cuts are likely priced into today's "robust" stock market prices.

Just because Fed Chairman Powell is signaling a further easing of short-term rates, does not necessarily mean long term rates will drop in sympathy. Long bond yields are very important to the economy and business investment.

Remember, for all the Fed's power over short term interest rates, the 10-year Treasury yield is set in real time by traders around the world. This global bond market largely determines what Americans pay on trillions of dollars of mortgages and other long-term debts.

The bond markets would swiftly punish (by rates going up) any imprudent action by a "loose" Fed Chairman. Of course, Trump could always declare another T.A.C.O. Tuesday, and reverse course on a detrimental policy action of his administration.

The fact remains, by late summer, the 10 largest companies in the S&P 500 index accounted for approximately 39.5% of its total value, the most ever market concentration, according to Morning Star Research.

In the U.S. stock markets today, the combination of very high valuations and very crowded trades (lots of investors buying the same handful of large cap tech) certainly raises the susceptibility of a market correction over the next six months.

As one astute market strategist observed, "If everyone is effectively long (a buyer) of the same things, where do the marginal buyers come from when they fall?

The "good" news, (for optimists) high valuations are not an impediment to even higher valuations. Nor are high valuations alone, usually the "catalyst" bringing markets down. But it's never a positive sign when your cleaning lady is asking about the stock/gold markets, or your retired family member is bragging about the recent "ten bagger" on a speculative quantum computer stock. True, it's not a scientific indicator, but its often a very good yellow flashing warning light of lower returns ahead based on our years of investing experience.

Further rate cuts by the Bank of Canada, are telegraphing a weaker Canadian economy ahead. Yet, as the stock markets powers ahead to new record highs, one classic mantra comes to mind: “Don’t fight the Fed”, especially when supposed further rate cuts are in the pipeline.

In our opinion, we still need to see a robust pick-up in the Canadian IPO-new issues market before a bull market peak becomes a concern. But don’t expect to hear a bell ring before the music stops.

In conclusion, your portfolio is conservatively positioned for potential “surprise shocks” to the financial markets – timing unknown. Moreover, one never knows when President Trump will send a flurry of his zinger “curveball” policies down the pipe.

P.S.: Feel free to reach out to Ben at any time 514-577-1955

Respectfully yours,
Benjamin D. Horwood
Portfolio Manager
September 29, 2025

Value Contrarian Equity Fund

Next Fund purchase

Date: October 15, 2025

Call today: 514-398-0808

P.S. Do visit us at our web site: www.valuecontrarian.com

**We're often asked: "When is the best time to invest in the Value Contrarian Fund?" Although there is no best time, since it is impossible to time the market, a preferable entry point is when the Fund has produced a month of negative returns or a year of underperformance. Unfortunately, human nature prefers the exact opposite.

Overall, long-term shareholders in the V/C Fund benefit from a sinking stock market, the same as a regular grocery shopper benefits from declining food prices. So when stock markets plummet – as they will from time to time – “neither panic nor mourn”. It's good buying news for your Fund

This letter is not to be construed as an offer, solicitation or recommendation to buy or sell any of the securities herein named. At the time of reading the investments mentioned may no longer be held by the V/C Fund. This information is intended only for existing investors in the Fund, as of the date indicated, is not complete and is subject to change. Performance information is net of applicable fees unless otherwise specifically noted. Past performance is no guarantee of future results. The information contained herein is unaudited. It has been supplied by Value Contrarian Asset Management (VCAM), the Fund's Investment Manager and not the Fund's Administrator who is responsible for the final calculation for the actual performance and final month-end Net Asset Values. Every effort has been made to ensure that the material contained herein is accurate as of publication. VCAM makes no representations or warranties as to the accuracy or completeness of such information and accepts no responsibility for any loss arising from any use of or reliance on the information contained herein. VCAM has no obligation to update the information at any point in the future.
