VALUE CONTRARIAN
ASSET MANAGEMENT

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 28% 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 69¢. However, if over the coming years it rose to 75¢ or 85¢, 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
March 10, 2025

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2024 Year End
Value Contrarian Equity Fund

Dear Partners,

Humans will behave in <u>crazy ways</u>, both on the upside and the downside in the next 50 years.

Warren Buffett
CNBC Squak Box
March 14, 2014

You have to break eggs to make an omelette. Trump is breaking Canadian eggs… (Canada needs) a new government with a bold vision ….to take on self-interests at home and make the country more <u>competitive</u>, more <u>productive</u>, <u>less regulated</u> and <u>less reliant on the U.S</u>. … (We need to turn this Trump period of lemons, into lemonade).

David Rosenberg Research
Financial Post
February 28, 2025

…Canadians have been offered one <u>bogus reason</u> after another for the tariffs. Fentanyl? Illegal immigration? The trade deficit?...

(In reality), Mr. Trump would like to reach into Canadian industry and grab a handful (think auto plants).

Elliot Kaufman
Editorial Board- Wall Street Journal
March 8-9, 2025

Today, (with Trump in power), it means grappling with the fact that, like it or not, a <u>new global order is emerging</u>….

One where the world is divided into <u>spheres of influence</u> and driven far less by Cold War -era idealism than by twenty-first century <u>self-interest</u>. The key powers - America, Russia, China - can negotiate deals that preserve their spheres and advance their interests ….

In Trumps view, Israel falls squarely within America's sphere -and the aid (to Israel) is a good investment for America itself.

Michael Oren
Former Israeli Ambassador to Washington
May 20, 2025

“Holy Bat Smoke”, Donald Trump is back as President of our southern neighbor (friend?). The question we, and many others want answered; what will keep investors protected from some of Trump’s more extreme (dangerous) economic policies? Think “tariffs” for example. An interesting podcast interview with the well-known economist, Nouriel Roubini, provides some potential answers as to how President Trump will be <u>kept “in check”</u>.

Nouriel explains the <u>four market “guardrails</u>” he feels will act to temper Trump, and hopefully prevent “<u>bad policies</u>”, from progressing into “<u>really bad policies</u>”.

According to Roubini, these <u>4 market guardrails</u> are as follows:

1) <u>Market discipline</u>:
   Bad policies would likely lead to the <u>invisible hand</u> of marketplace discipline. That could manifest itself through a strong stock <u>market selloff</u>, or <u>higher bond yields</u>, thanks to the “bond vigilantes”. Trump, from past experience, seems to be very sensitive to both higher interest rates/bond yields or <u>painful stock market selloffs</u>.

2) <u>U.S. Federal Reserve</u>:
   When it comes to setting interest rates, Chairman Powell and the Fed is an independent institution. The Fed, despite Trump, can raise rates to counter unwanted inflationary pressures. These powers thus represent a “guardrail” against <u>unexpected inflationary policies</u>.

3) <u>Three Key Economic Advisors</u>:
   These 3 “wise” men/women are Trump’s key economic advisors (Scott Bessent, Stephen Miran, and Howard Lutnick). The “advice” from these three men would likely act as an additional guardrail against potential bad Trump policies from spiraling out control.

4) <u>A small majority in Congress</u>:
   Some of the things Trump wants to do, must be done with the consent of Congress’ power to legislation. Trump, in many instances, cannot act unilaterally. This is part of the normal “checks & balances” on a leader’s power in any democracy with a credible legislative branch.

   In summation, these four “guardrails” will hopefully act as “<u>shock absorbers</u>” on Trump’s power to enact “bad policies”. Think of these four guardrails as Trump’s <u>cockpit warning system</u>. Really bad policies will suddenly produce a jarring scream in the oval office! Hopefully, Trump will respond in a rational manner to the cries of: “<u>Pull Up</u>”, “<u>Pull Up</u>” Terrain Ahead, or “Wind Shear”, “Wind Shear” – <u>Go Around</u>!

Over the next four years, both political junkies and the financial markets will be in for some moments of extreme volatility. In short, fasten your seatbelts for the unexpected. Remember, Trump allegedly likes to escalate and then de-escalate a situation, depending upon how hard his policies hit the guardrails. Let's hope these guardrails don't collapse under the weight of excessive bad policies.

It's still the early innings in Trump's tenure, but this attitude of "break things" now and "ask questions" later is creating a lot of business uncertainty. Trump had given us ample warnings on his basic tariff strategy. The financial markets, until recent, just chose to ignore him, or as we incorrectly felt, not believe they would be seriously implemented.

History is full of supposedly savvy political/business leaders repeating the same financial errors of the past. Time has clearly shown that tariffs are not the "panacea" to reverse a country's long term economic decline. Today, Trump is whipping up a version of the 1930s Smoot-Hawley Tariff Act, (which raised import duties on foreign goods aiming to protect American businesses and farmers), and which ultimately "exacerbated the Great Depression by triggering retaliatory tariffs and collapsing global trade".

<u>2024 Performance</u>: +20.8%

…If you start fooling your shareholders (in the annual letter), you will soon believe your own baloney, and be fooling yourself as well.

Warren Buffett
Berkshire Hathaway
2024 Annual shareholders letter

Mr. Trump famously considers the stock market to be a real-time <u>barometer of his success</u> as a politician …. Investors know Mr. Trump is loath to put equities at risk. But that's exactly what he seems to be doing right now….

<u>Falling U.S. stocks are possibly Mr. Trumps core vulnerability/ his "kryptonite"</u>.

Tim Shufelt
Opinion - Globe & Mail
March 1, 2025

And unlike Buffett, who is famously hands-off, Greg Abel (Buffett's successor) sweats the details. "Greg will not let the laggards be laggards,"…. "If you underperform, you'll get a call from Greg." …. "(Greg) is probably tougher than I would be , (says Buffett)"...

Shawn Tully Reporter
Fortune Magazine
February/March 2025

AI's revolution won't arrive with a bang. It will seep in slowly, reshaping industries over decades rather than years. The steam engine, electricity and the internet all followed the same pattern: initial excitement, sluggish adoption, then an explosion of value once businesses figured out how to use the technology in transformative ways.

Joel Blit
Professor of Economics – University of Waterloo
Globe & Mail- February 25, 2025

December 31, 2023 – $ 4,173.59 (NAVPS after distributions)
December 31, 2024 – $ 5,042.13 (NAVPS before distributions)
December 31, 2024 – $ 680.37 (Year-End distribution per unit)
December 31, 2024 – $ 4,361.79 (NAVPS after distributions)

Your Fund ended the year with a net asset value of $ 4,361.79 per unit (+20.8%).

2024 was year # two into the bull market that started from the lows of October 2022. Once again, double digit returns were achieved in the U.S. stock markets. Tech and AI stocks continued to produce a significant chunk of the S&P500 returns. In Canada, the tech, financials, and energy/materials sectors did most of the heavy lifting.

2024 Total Returns:

DOW: +14.99% / S&P500: +25.00% / QQQ: +25.58 / TSX60: +21.04 /
TSX: +21.65%

The foundations of today's Value Contrarian portfolio were set well before 2024. Intentionally, Berkshire Hathaway was chosen as the key portfolio anchor to provide stability and a fortress balance sheet for the inevitable storms later in the business cycle. Between 2017/2018 we purchased 10,000 shares. During 2019 and Covid we purchased an additional 16,000 shares. Buy & hold has been our preferred strategy.

Every decade or so, someone will declare that Warren Buffett, the Berkshire Hathaway boss has lost his touch – usually a cue for his style of investing to come roaring back. The late 1990's was one such case.

Warren was ridiculed as a "has been" during the Internet bubble of the 1990s. This image quickly faded when the bubble burst in early 2000 and the S&P500 was down for three consecutive years: 2000 – (9.1%), 2001 – (11.9%), 2002 – (22.1%). Berkshire's performance during the same 3 years: +26.6%, +6.5%, -(3.8%). How quickly memories fade, and "greed" overpowers "fear".

Interestingly, Berkshire sold about $143 billion worth of equities in 2024, while its total stock purchases amounted to just $9.2 billion for the year. Buffett stopped repurchasing Berkshire shares in May 2024. He had been an active buyer of his own stock for the past few years.

During 2024, your Fund realized approximately $8 million dollars in capital gains. The good news, <u>we incurred some large capital gains</u>. The <u>bad news</u>? We produced a large tax bill. As a result, you will receive a larger than normal tax bill to pay as evidenced by your T3 and RL16 slips. Yes, we acknowledge, many don't rejoice at both making money and having to pay taxes. I will diplomatically remain silent on this subject matter.

About half of last year's capital gains can be attributed to the sale of 7,500 BRK.B shares. We pared the position from 30,000 shares down to 22,500 by year end (20,000 by February 2025). In addition, the 2024 sale of our long-term holdings in Saputo and Bank of Commerce also contributed to large realized gains for the year.

Why the BRK.B sales?

1) Berkshire shares had appreciated by 25% in 2024. As a result, this one holding now exceeded 30% of your Fund's assets. The intent was to bring the position down to between 20%-25% of the Fund's assets.

   Unfortunately (or fortunately), in early 2025, despite selling an additional 2,500 shares, (avg. price $491) Berkshire stock surged to record highs on the back of its excellent insurance operation earnings. Today, Berkshire still represents approximately 26% of Fund assets, despite owning 10,000 less shares.

2) In addition, Berkshire's valuation was reaching the higher end of its traditional range and was accompanied by a <u>key insider seller</u>, Ajit Jain.

   Investors must realize that despite the Buffet "halo" effect, Berkshire stock has suffered four periods when it temporarily dropped <u>50% in value</u>. The most recent example was during the financial crisis of 2008. An investor needs to have a strong <u>mental disposition</u> to hold a stock that has the potential to suffer a 50% drop in value.

3) Finally, we are not adverse to possessing additional <u>cash "firepower"</u> for redeployment should the markets tank. Remember, a Trump presidency was looming in the background, and both positive and negative policies were coming down the pipeline.

At year-end, cash and short-term government T-Notes represented approximately 17% of your Fund's assets (21.5% at February 2025). As always, our cash position is held in short-term Cdn & U.S. T-Notes. <u>We insist on safety over yield</u>. Our AAA government debt gives us <u>maximum liquidity</u>, especially during times of fear and panic – such as during the financial crisis of 2008.

For the record, we have nothing against investing in high yield debt (past example – SNC Lavalin bonds). But we consider junk bonds as part of our "equity" allocation.

It's common knowledge that paper money can see its value evaporate if "fiscal folly prevails". While fixed-coupon bonds provide little protection against the printing of money – digital or otherwise. Despite our cash & equivalent holdings, we never prefer ownership of cash equivalent assets over the ownership of "quality", "growing" businesses.

This past week the major stock indexes (Dow, S&P500, NASDAQ, Russell 2000) all reached "correction" (-10%) territory.

Some are now asking, are we headed into a bear market? More importantly, what will it take for President Trump and his band of "merry henchmen" to backtrack from their tariff crusade against Canada? Maybe history has shown us the answer. A massive stock market selloff.

Let's take a quick walk down "history lane". On Monday September 29, 2008, the US government's $700 billion (TARP) emergency bail-out of the banking industry collapsed in disarray. Congress voted against the TARP plan, sending Wall Street stocks plummeting and spreading shock through the financial markets. The Dow closed down 7% for the day, while the S&P500 was now down approximately 29% from its October 2007 peak.

Fear and panic gripped global financial markets. However, four days later, after some minor changes, Congress voted to pass the TARP bill into law. By the end of November, the S&P500 was down 37.5% from its peak (and more to come).

Trump may talk tough now, but if he refuses to negotiate a reasonable tariff compromise, the stock markets will be the final arbitrator of his deal. A 35%, 45% or 50% market drop would be a severe body cross check that would send a winded Trump tripping over himself for a face-saving compromise.

In the past, when financial panics set in, I have personally witnessed "tough as nails" veteran real estate developers melt with worry and seriously ask – "Ben is it safe to park money at Bank of America?"

In our opinion, severe stock market pain may be the "medicine" which dictates more rational terms to this tariff war. Unfortunately, it may take a lot more pain for that day to arrive. Have your bottle of Pepto Bismol at the ready!

Outlook 2025

It is going to <u>take time</u> for Americans to wake up to the President's <u>misguided trade war</u>.

David McNaughton
Former Canadian Ambassador to the USA
Globe & Mail
March 10, 2025

The Trump threat has spurred a new nationalism and patriotism in this country….We are now prepared to knock down interprovincial trade barriers, build up the military and be more aggressive in finding new trade markets (and building new pipelines - Amen).

Lawrence Martin
Opinion Columnist – Globe & Mail
March 6, 2025

The good thing about <u>my economic predictions</u>, if I do ever make them, is that <u>I pay no attention to them myself</u>… The way we pick our investments is we just don't get into the macro factors.

Warren Buffet
Chairman – Berkshire Hathaway

You want to fix the Middle East? <u>It's about Iran and it's only about Iran</u>. And it will only ever be about Iran. And until you solve Iran, nations will continue to be demolished. (Lebanon, Syria, Yemen, Gaza) … Everybody's lives in the Middle East depend on ending the Iranian regimes crusade that has so far conquered and destroyed or is in some state of demolishing four different Arab countries and wants to destroy my country…

Haviv Rettig Gur
Journalist – Times of Israel
Honestly Podcast
July 2024

Trump may celebrate bringing an end to the (Ukrainian) war, as he had promised, and some Americans may be gullible enough to believe that, but the parallel with <u>Chamberlains flimsy "Peace in our Time" agreement with Hitler</u> just before the Second World War is striking. (Hitler quickly broke the agreement and WW2 broke out.)

Derek H Burney
Former Cdn Ambassador to USA
Financial Post- February 19, 2025

In 2025, what is the definition of "uncertainty"? It's spelled P.r.e.s.i.d.e.n.t T.r.u.m.p. Simply put, Trump has started a global trade war targeting both friends and foes, with special focus on Canada.

Whatever the eventual outcome in this trade war, the U.S.-Canadian trade goalposts have been seriously moved. Whatever U.S. administration takes power in the future, Canadian businesses will have to compete more fiercely against U.S. companies for investment and jobs. Canada, will now also have to carry its fair share of the West's defence burden.

Don't be surprised to see Canadian defence spending "fast tracked" to the 2% level. While the protected Canadian dairy industry will likely be pressured to allow more foreign access. Until the tariff dust settles, major business decisions in Canada will be put on hold.

The good news, Trump has given our country a much needed "kick-in-the-ass!". New pipelines will be built, defence spending increased, and archaic interprovincial trade barriers will be toppled.

Investors must realize that this tariff-trade war will translate into significant "structural" changes to the Canadian economy. Unless Trump seriously backtracks, pain is coming to the Canadian economy. America is sending us a self-inflicted recession.

On another note, "Caveat Emptor" for those who underestimate Vladimir Putin's wounded historical grievances of lost Russian empires. Moreover, Putin would certainly love to "roll back" the three Baltic NATO members; Lithuania, Latvia, & Estonia. These Baltic states represent potential future geo-political flashpoints with the West. The war in Ukraine, perhaps represents just the "middle innings" of Putin's long-term strategic moves against Ukraine and the former Soviet republics (including Moldova).

Finally, after two years of outsized double digit U.S. stock market returns, (highly tech based) we would not be surprised to see, at some point in 2025, a good old fashion 10%-20% market correction. A healthy market correction is a normal part of any stock market cycle. Without a quick and reasonable tariff compromise, Trump has created the perfect catalyst for a stock market correction.

In addition, another potential correction catalyst, is the looming Israeli/USA showdown with Iran over its nuclear weapons program. A "nutured" Iran, will hopefully produce a safer and more stable Middle East. Although, Turkey or Qatar could easily be waiting in the wings to fill Iran's "ideological" and "financial shoes".

Nothing is ever simple when it comes to the Middle East. It's a "hornets" nest of jealousies, historical rivalries, and competing interests. In many instances, it's allegiance to one's clan, tribe, and family that rules the Middle East, rather than allegiance to one's country.

We will soon learn if Trump's trade policies turn out to be a constructive exercise or lead to a global tariff war. The stock market is telegraphing that investors are clearly rattled at the prospects of a trade war. As one Washington insider recently admitted, "I want to caution you from thinking they have a grand strategy".

Respectfully yours,
Benjamin D. Horwood
Portfolio Manager
March 10, 2025

Value Contrarian Equity Fund

Next Fund purchase

Date: March 21st, 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.

Year-End Management Note

It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently.

Warren Buffett
Berkshire Hathaway

As we have always stated, we cannot promise any particular results, only that investments for your Fund will be selected based on **value not popularity**. We view our Fund shareholders as our partners, and we assure you that the protection and growth of your capital will continue to be paramount in our thinking.

We aim not to be the biggest but to ensure consistent performance, even if that means limiting the Fund's size or closing it to new investors in the future. We want to enjoy coming to work every day and view the Value Contrarian Fund more as a private partnership, where "membership has its privileges".

Secular or disruptive technological changes to an industry or company is what truly destroys shareholder wealth and keeps us up at night (think Nortel, Abitibi, Kodak or Blockbuster). Conversely, stock-market volatility or the fear and panic of a bear market are merely temporary but opportunistic events for the rational buyer. At the end of the day, "**price paid**" is what matters most when investing for the long-term. **"Price is what you pay, value is what you get".**

Being the largest shareholder and the Manager of your Fund is certainly no guarantee of superior long-term results. But I do think one's comfort level is enhanced by having my financial interests aligned with yours. **Simply stated, your returns are my returns**.

"Happy employees, happy clients." When it comes to providing a stellar customer experience this is what you will always receive from our man Moody!! Hats off to Mr. Shaker for his well of patience, a trait, I admit, your Manager sometimes possesses in short supply.

We would like to thank our shareholders for the trust you have placed in us during this volatile past year. And again, **thanks for your referrals – much appreciated – keep them coming.**

Ben Horwood
March 10, 2025