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Dear Client,

AI and the Value Investor's Edge

In recent months a popular refrain has emerged suggesting that artificial intelligence has rendered fundamental investing obsolete. The thinking goes that the information advantage once available to diligent investors who painstakingly gathered disparate data to develop a mosaic that might yield a view different from that of the market has largely disappeared. What value does that mosaic provide in a world where that data is at your fingertips? Today the data is instant, comprehensive and neatly summarized. Algorithms can scrape, analyze and even interpret a company's filings in seconds! It can then do this repeatedly for dozens of companies outpacing even the hardest working analyst.

How can an investor still possibly have an edge against such raw power?

We would suggest this narrative confuses information with insight. The real question is not whether markets are better informed, but whether they are better at weighing that information. More data does not automatically yield better decisions, and in fact it often amplifies the noise, shortens the time horizon and reinforces consensus thinking. The same tools that make information accessible to everyone also encourage uniformity of interpretation. In an environment where everyone has the same summary, genuine differentiation comes not from faster access, but from better judgment. Judgment is crucial in understanding the durability of cash flows, the incentives of management, the interplay between industry structure and capital allocation and, most importantly, how these dynamics affect intrinsic value.

Our experience suggests that the analytical playing field has not been leveled. It has merely shifted. Where AI systems excel at pattern recognition and prediction with stable frameworks, value investing often thrives in the gray areas where human behavior, structural changes, and incentives matter more than data density. The ability to think independently, apply patience and embrace discomfort remains a persistent edge precisely because those qualities are difficult to replicate algorithmically - at least for the foreseeable future. This is not to say that AI is not a useful tool. It is something that we are embracing, but it is a tool. Even the best tool still needs a good craftsman to wield it.

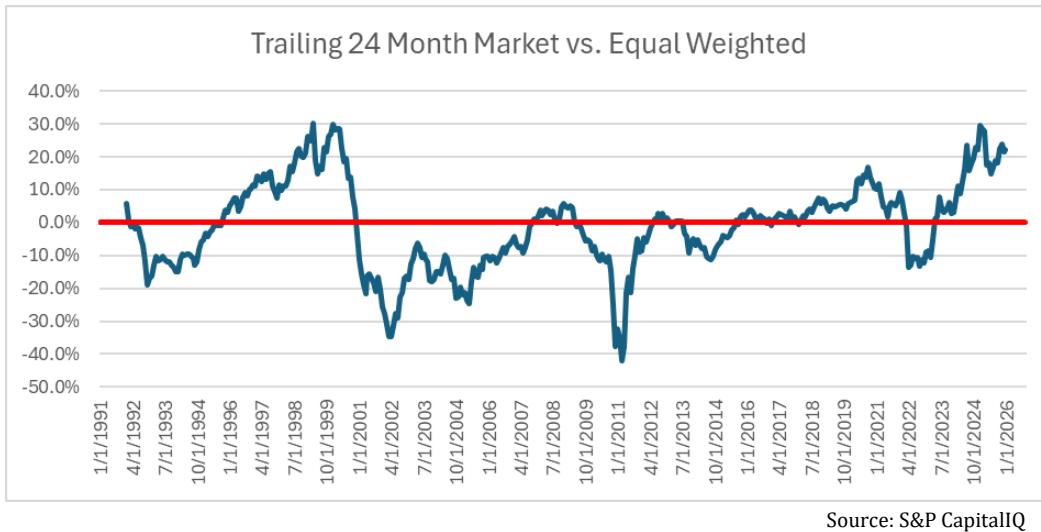
Navigating an AI Led Market

The current market environment is one of extraordinary concentration. The majority of S&P 500 index-level gains this year and, indeed, much of the market's advance in recent years, has come from a handful of technology companies tied to the AI boom. This dynamic is reminiscent of the late 1990s, when investor enthusiasm around the dot-com euphoria created a similar bifurcation. From January 2000 to January 2005, both the S&P 500 and especially the tech heavy Nasdaq produced negative returns, while disciplined, value-focused investors like us enjoyed some of their stronger absolute performance. History reminds us that even within broad market downturns, there are pockets of significant opportunity, particularly when valuations in the dominant narrative sector become detached from underlying fundamentals. We see this regularly, where our daily performance is largely uncorrelated to the major market indices.

So why is our portfolio today so different from the major indices? We are not exposed to the group of companies driving AI-related gains. That absence is not a rejection of technological progress; rather, it reflects our insistence on valuation discipline. By investing outside of the areas currently commanding the market's attention, we position ourselves for distinct and, we believe, more durable returns. While we do not expect to be insulated from broader market volatility (when bubbles deflate, their effects often spread beyond the sectors directly involved), we believe our portfolio is positioned to weather such periods with greater resilience. The companies we own are not dependent on the same flows of speculative capital and, importantly, are valued on tangible cash flows rather than expectations of perfection. When enthusiasm becomes excessive, independence is a competitive advantage.

While we are not in the business of timing the markets, we do recognize familiar patterns. Much like the dot-com boom, a disproportionate share of capital is flowing into a narrow set of companies promising to redefine the future. The *New York Times* recently illustrated this dynamic using an infographic to show how major AI players are increasingly funding one another's operations - a sign, perhaps, of stress beneath the surface. One example is NVIDIA effectively discounting its chips by making huge cash investments into customers who then use that capital to purchase more of NVIDIA's chips. It's not necessarily a signal of imminent collapse, but it does highlight how much of the ecosystem's growth now depends on self-reinforcing flows of capital.

To put the current market dynamics into context, we revisited the relationship between the S&P 500's market cap weighted and equal weighted indices. Over the past 24 months, the market cap weighted index has outperformed its equal weighted counterpart by nearly 30 percentage points, a spread not seen since the height of the dot-com bubble. Historically, such divergences are rare and, to date, unsustainable. Over the long term, the equal weighted S&P 500 has tended to outperform its market cap weighted version, reflecting the benefits of broader participation and the fervor that can come in times of euphoria surrounding specific industries.



Source: S&P CapitalIQ

The current imbalance underscores how concentrated this rally has become. The top handful of companies, many tied to the AI narrative, now account for an outsized share of both the market's capitalization and performance. In effect, the index has become a proxy for a narrow set of highly correlated bets. The last time the gap between the largest stocks and the rest of the market was this wide, the ensuing years favored investors positioned outside the prevailing narrative.

We are not saying these companies are "bad" investments. It is entirely likely that AI will continue to reshape the economy and the world in profound and beneficial ways. But even if that future unfolds, many of these anointed businesses are already priced for that. In contrast, the companies we own are priced for indifference. They trade at valuations that already embed low expectations yet produce strong and tangible cash flows. Just as the bursting of the dot-com bubble set the stage for the 2000s commodity supercycle, we see echoes of that setup today: capital flowing into the digital frontier and away from the physical world that still underpins it. Yet energy and materials to power that digital world are critical. We believe these neglected areas offer a compelling combination of scarcity and cash generation, with sizable mispricing.

Our focus remains on identifying durable businesses whose value is supported by fundamentals, not fashion. In markets dominated by momentum and narrative, patience and price discipline are not constraints, they are our edge.

Portfolio Update: Exit from Interfor

Earlier this month, we exited our position in Interfor Corporation, a Canadian lumber producer that we have discussed in prior letters. Our investment thesis centered on the long-term supply and demand imbalance in lumber, the scarcity value of timber assets, potential hidden assets, and the price sensitivity to any return of demand. While we continue to believe that the broader

industry setup remains favorable, recent developments at Interfor altered the risk-reward profile in ways we could not ignore, and the environment has persisted longer than expected.

Interfor announced a new equity offering representing roughly 15% of its outstanding shares, raising approximately C\$125 million at a discount to the prevailing market price. The proceeds are intended to reduce indebtedness and strengthen liquidity, but the transaction meaningfully dilutes existing shareholders and underscores the company's balance sheet strain. With weak lumber pricing prompting significant curtailments of approximately 145mmbf, or about 12% of normal production, the equity offering signaled to us that management was forced to prioritize survival, leaving them unable to benefit from the downturn by taking actions to increase shareholder value. The financing also came shortly after higher U.S. softwood lumber duties were imposed, adding further headwinds to near and mid-term profitability.

With unrealized losses in the positions we held, we decided it best to sell out of the position and reassess where capital could be more productively deployed. Following the sale, we have spent several weeks speaking with management teams across the industry to re-underwrite the sector and evaluate whether to reallocate capital within it. Our conviction in the longer-term structural setup has not changed. Capacity closures, reduced timber baskets, and labor issues set the stage for huge price increases when demand normalizes. That said, the companies that are best positioned may well be different.

We continue to have exposure to the industry through West Fraser Timber (WFG), which we view as better positioned to navigate this cycle. Its balance sheet is strong giving it significant optionality to expand and invest countercyclically, and it operates with the scale and geographic diversification that allow it to endure and even benefit from periods of stress. We believe this disciplined repositioning preserves our exposure to an attractive long-term theme while reducing company-specific risk. This has been a recurring pattern in our investment history.

Please feel free to reach out with any questions. In the meantime, have a happy and healthy Thanksgiving!

All the best,



Bob

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