
Q2 / July 2025

Clients and Friends,

During the second quarter of 2025, the median account return for separate accounts managed by Greystone Capital was +14.8%. Year-to-date, the median account return was +6.3%, net of fees. Second quarter and year-to-date results compare favorably to the S&P 500 and Russell 2000 returns of +10.9% and +8.5% during the quarter and +6.2% and -1.8% year-to-date. Since inception Greystone Capital has returned a cumulative +236.0% compared to +154.8% for the Russell 2000, +64.0% for the Russell Microcap Index and +211.4% for the S&P 500.

As you'll see below, and as communicated separately with clients, we have launched a commingled investment fund, **Greystone Capital Partners, LP**. From here, we will no longer be onboarding individual separate account clients. In addition, within 1-2 quarters, performance reporting in these letters will favor the fund. Remaining separate account clients have daily performance transparency as has been the case since inception, and as always you can reach out with any questions.

Please refer to the **Recent Developments** section toward the end of this letter for more information.

Our portfolio has held up well year-to-date, despite what can be deemed a more newsworthy year, owing to strong business results across our collection of companies. However, our year-to-date returns could be better, as several unforced errors from earlier this year have weighed on our performance. We are also holding a fairly large cash position due to some selling activity during Q1, that I am actively looking to deploy. I have been adding to some of our current holdings and spending time getting to know other high-quality businesses. The opportunity set in that regard is quite good.

As far as the outlook is concerned, these are curious times. Broad market strength has been surprising, given the overhang of tariff uncertainty, persistent inflation, and ongoing geopolitical tension. Fortunately, we have little direct exposure to tariffs, and the few companies in our portfolio that are tariff-adjacent have pricing power to pass through modest cost increases. Combined with the limited financial and operational risk across our holdings, this puts us in a strong position, regardless of how the broader market performs. This includes small caps, which maintain their status as the market's ugly duckling.

Small caps, particularly the Russell 2000, remain in a prolonged stretch of underperformance relative to large caps. Yet once again, capital has flowed elsewhere, with investors favoring emerging markets over domestic small companies. The conditions for small cap outperformance have been in place for years: a resilient economy, historically cheap valuations, and a decade-plus of relative underperformance. Yet the return profile is one of 'fits and starts', such as two years of dismal performance followed by a +15% rally during a single quarter. Or -9.5% in Q1 this year followed by +8.5% in Q2. This pattern resembles my 4-year-old daughter at the beach...initially

excited to get in the ocean, she barely dips her feet in before turning around and bolting back to dry sand.

Despite this five-year backdrop, *our* companies, many of them overlooked or undergoing transitions, continue to mature into beautiful swans. We've outpaced the Russell 2000 and Russell microcap indices during the past 1, 3 and 5-year periods, without the benefit of a rising small cap tide (or leverage, might I add).

History suggests the environment will shift. Eventually, small caps will get their moment in the sun, and when they do, we are well positioned to benefit. In the meantime, our focus remains unchanged: find quality businesses, buy them at discounted prices, and stay anchored to our preferred return metric...the slow, steady compounding of intrinsic value. Going forward, patience will continue to be our most valuable asset.

Roots Before Branches

"The world went and got itself in a big, damn hurry."

- Brooks Hatlen, Shawshank Redemption

This quarter marks **five years** since the inception of Greystone Capital. We enter the next five years with a strong track record, but also meaningfully more experience, better pattern recognition, deeper relationships, more resources and a better understanding of how to navigate ups and downs, for which we've had plenty. With each passing year, you're getting a better investor and portfolio manager.

While I'm proud of our five-year performance, I don't place much weight on it. Over a short enough time frame, nearly anything can work...or not work. [Twenty quarters of letters](#) now sit on our site, each reiterating the same yardstick by which I measure our progress...years, not quarters. We are just getting started.

Five years in, I've taken some time to reflect on the roots we planted, what's grown from them, and why those early decisions continue to shape everything we do.

It's my belief that anyone managing outside capital takes on a clear challenge: to outperform. This is a difficult task. Even during the times when investing *feels* easy, kind of like today, it pays to be reminded that it's never easy. This is because there is plenty of competition searching for mispriced assets, good companies never appear obviously cheap, and occasionally the world faces threats, which feel existential in the moment.

Making outperformance even harder is our industry, where incentives are often geared toward asset gathering (i.e. marketing), not performance. Trend following often replaces original thinking due to the temptation to go along with the institutional imperative. The tendency (and ability) to dance in and out of stocks, markets, or geographies can lead to hyperactivity that both reduces good decision making and increases costs. All of these things can discourage calculated risk-

taking, independent, long-term thinking, and the evolution (mistakenly referred to as 'style drift') required to grow as an investor.

The result is a growing disconnect between investors and their partners, where true alignment is the exception, not the rule. And yet, the roots of long-term investment success hinge on this very alignment, when incentives, time horizons and decision-making frameworks are all pulling in the same direction. Compounding at high rates of return is difficult enough. Trying to do so amid misaligned priorities and conflicting agendas borders on impossible. In a business where the incentive tree can splinter into a hundred competing branches to serve the shifting goals of companies, investors and their partners, it's easy to fall into disrepair.

But there are ways to make investing a little easier.

The first is simple: **stay in the game**. Compounding only works over the long term, so survival is non-negotiable. Avoiding the fatal combination of leverage, speculative behavior and taking on the wrong partners is paramount. Poor stock picking is rarely the cause of funds that close prematurely. My approach to staying in the game has consisted of keeping personal and business costs low, avoiding the transitory capital that dominates our industry, and steering clear of the institutional imperatives and periodic pressure to alter my best judgment. Survival requires patience, which sounds obvious, but is rare. When the world is in a hurry, patience can be a powerful edge.

The second way is to **make the game easier to win**. That means lowering the bar. It would be foolish to think we could nail every stock pick or time every buy and sell decision correctly. We can't. We instead just need to put ourselves in a position to be right often enough, and make it count when we are. That means fishing where the fish are, waiting for fat pitches, and stepping over one-inch bars. Kobe Bryant once said he would never enter a dunk contest with Vince Carter, not because he couldn't win, but because he didn't want to lose. *"I enter into games I know I can win."* We can't lose if we don't play the wrong game.

In markets, there are many smart people spending a lot of time on things we don't even think about. I'm sure there is plenty of money to be made, but at Greystone, we've tried to build an advantage around doing one thing well. That means focusing intensely on a small number of high-quality businesses. It means not diversifying across dozens of sectors or geographies. It means not trading in and out of stocks. It means resisting fads, narratives, and the illusion of safety that comes from overdiversification.

The common presumption when building an investment firm is that progress is additive, more analysts, more strategies, more ideas. In reality, it's subtractive. At the heart of good investing is focus and simplicity. There's a common belief that investors should constantly *widen* their circle of competence. I disagree. They should **deepen** it. By deepening our knowledge, sharpening pattern recognition, and improving the ability to admit when we're wrong, we tilt the odds in our favor without needing to know everything about everything. This puts us in an enviable position compared to most funds and is one of Greystone's most important qualitative differentiators. Focusing on fewer things brings 'a double satisfaction' as Marcus Aurelius once observed. We get the satisfaction of having fewer things to do, as well as the satisfaction of doing those fewer things at a higher level. We get *'to do less, better.'*

Before accepting one dollar of outside capital, I planted the roots of Greystone, which serve as our foundation: deep alignment, long-term thinking, and the discipline to do one thing well. From the beginning, my goal has been to align my capital, philosophy, and incentives with like-minded partners who share my worldview. That alignment is our greatest advantage. It's why I repeat my quarterly refrain about aligned interests. It's the architecture of everything we do. If compound interest is the eighth wonder of the world, alignment is the engine powering our results and building a moat around our future.

Today, the incentive tree we've built has the **strongest roots and the fewest branches**, designed to support thoughtful decision making and long-term success. Thank you, as always, for the trust you've placed in me. I look forward to the next five years and to building something enduring, together.

Portfolio Commentary

Top Five Positions

As of the end of Q2, our top five holdings consisted of **Natural Resource Partners, APi Group, Sylogist, KITS Eyecare**, and **Medical Facilities Corp.** Our top seven holdings represent 80% of client's capital. I will make adjustments as necessary, but regardless of where the economy and markets go from here, I continue to be optimistic about business results through the balance of the year and moving forward.

Natural Resource Partners (NRP)

NRP is our coal royalty business that was first introduced in our [Q4 letter](#). As a reminder, NRP has been consistently paying down debt since 2017 with the aim of holding a net cash balance sheet, which I estimate they will reach within 12-15 months. Despite the less-than-stellar near-term outlook for NRP, we are playing for long term upside, with a number of attractive elements to this investment that could drive strong returns over time.

As management has telegraphed, if met coal prices linger at current levels, due to lower royalties received, free cash flow generated from NRP's mineral rights business in 2025 will be less than previous years. This is weighing on the stock so far this year. Keep in mind that NRPs business was stress-tested remarkably during the past decade and remained cash flow positive even in the worst coal price environments. During 2016, when met coal production declined to its lowest levels since 1978, and spot prices for met coal touched below \$80/Mt (\$177/Mt today), NRP still generated \$76mm in free cash flow. That year, they also paid \$90mm in interest expense (versus an estimated \$10mm during 2025), meaning unlevered free cash flow would have been \$166mm, in the worst environment for met coal in 30 years. That is quite attractive.

During 2025, I estimate NRP will generate \$130-140mm in unlevered FCF, representing a 10% FCF yield on the current market cap, despite what I consider to be trough met coal prices and trough soda ash prices. These cash flows will be coming back to us in short order, with massive upside on any cyclical upswing in China's economy, lower global stockpiles and increased pricing. There is also further optionality in soda ash price increases and further carbon capture initiatives on NRPs

land. I'd estimate met coal prices to be significantly higher than today's levels by the end of the decade, as the supply/demand imbalance remains severe. Importantly, 2025 is projected to be another record year for global coal consumption. My estimate of intrinsic value is greater than 100% of today's price.

APi Group (APG)

Our investment in APG, our fire and life safety business, is a great example of our process identifying quality businesses with excellent management teams that are misunderstood and mispriced. APG shares have appreciated 5x since going public in 2020 and still check many of our boxes including scale advantages, durability, a growing industry and excellent management team who has proven to be strong operators and capital allocators.

APG remains in our top five positions due to the runway for organic growth and M&A, which should increase free cash flow per share over time. Growing volumes within Safety Services, price increases and the continued mix shift toward inspection-related revenues should provide 5-7% organic growth revenue growth into the foreseeable future. That, mixed with cost leverage, lower capex and higher margin revenue means free cash flow conversion moves toward management's target of 80%. As they've done historically, APG can use their free cash flow to acquire businesses which they can improve on both the gross margin and EBITDA margin fronts through further cost leverage and an inspection revenue focus. The recent acquisition of Elevated Facility Service Group broadens APG's service offering outside of fire safety and brings with it additional organic growth opportunities.

APG is still being valued closer to a cyclical industrial as opposed to the durable, recurring revenue, acyclical, cash generative business they are. I can conservatively underwrite a 15-25% return per year during the next 3-5 years, with growth in free cash flow and slight multiple expansion as the market continues to realize the strength of APG's business and the improved cash flow characteristics, deserving of a higher multiple. APG has the ability to generate around \$1.3B in free cash flow by 2028, against a market cap of \$14B. With continued execution APG could compound in value for years.

Sylogist (SYZ.TO)

Sylogist is our long-held non-profit and government software business. During the past three years, Sylogist has executed incredibly well on a turnaround that I believe has turned for good. Since that time period, nearly every key metric is moving in the right direction, including SaaS subscription revenue growth, competitor displacement, channel partner growth, win rates and new logo growth.

Continued execution on the metrics above will eventually lead to increased top line growth and margin expansion along with increased free cash flow. If growth accelerates like management thinks it will, to 30% or above by 2027, Sylogist will approach CAD \$35mm in EBITDA by 2027. The current market cap is just north of CAD \$200mm. There is execution risk, but what gives me confidence is that this business should be relatively predictable (installed base, low churn, multi-year contracts, annual price increases) giving good visibility 2-3 years out. There are also the

recession resistant aspects of ERP and software in general, allowing Sylogist to grow through adverse economic scenarios.

Sylogist's three-year outlook projects SaaS ARR growth to accelerate from 15% in 2024 to above 20% in 2025, and above 30% in both 2026 and 2027. The company also expects adjusted EBITDA margins to move north of 30% in 2027. With no change in the current 10x multiple, Sylogist could fetch around CAD \$15/share versus \$9/share today. However, counter cyclical, mission critical, recurring SaaS businesses growing organically 30%+ with minimal churn and decent operating leverage do not trade for 10x. At 15x 2027 EBITDA (around half of peer valuations), shares would offer 110% upside.

KITS Eyecare (KITS.TO)

I outlined KITS as a new investment in our [Q1 letter](#), so I will keep my comments brief. KITS is our founder-led e-commerce eyecare business that has grown tremendously since inception in 2018, and through a combination of organic growth, cost discipline and the continued revenue mix-shift toward high margin eyeglasses, KITS has the opportunity to become a long-term compounder. Given the increasing category momentum online and phenomenal execution by management, I believe we are in the early stages of KITS growth runway, which should prove to be incredibly long.

Our shares have appreciated considerably since our initial investment, but there remains considerable upside during the next few years. We will face our share of hiccups along the way, but if KITS can approach my estimate of cash flows during the next 3-5 years, shares could trade between CAD \$35-45/share versus CAD \$15 today.

Medical Facilities Corp. (DR.TO)

Medical Facilities Corp. is as boring as any value investment can get but has nonetheless done very well following the simple playbook of operating their portfolio of hospitals profitably and using excess cash to aggressively repurchase shares.

The surgical hospitals under MFCs control are durable businesses with minimal competition that have long operating histories and a lack of cyclicity. This allows MFC to grow patient volumes organically 3-4% per year while generating significant cash flow due to a renewed focus on cost controls. MFC is not directly exposed to tariffs, and while they were temporarily hurt by drugs and supplies inflation along with labor inflation for their nursing staff during and post-COVID, costs have returned to a more normalized level with recent quarterly results showing decreases across the board.

Along with MFC's Q1 results, they announced the completion of a Tender Offer via Modified Dutch Auction, whereby 3.4 million shares were repurchased, representing 14.7% of shares outstanding. It's incredibly refreshing (and quite rare) to see management teams directing excess capital to the best and most valuable use consistently. As this continues, we will benefit.

MFC is trading at a double-digit free cash flow yield, growing low single digits and repurchasing 7-10% of shares per year (potentially more with additional tender offers), setting the stage for an 18-

20% IRR during the next few years. Optionality and increased upside exist with the sale of additional assets within their portfolio.

Recent Developments

After five years of managing Separate Accounts, we have launched a commingled investment fund, **Greystone Capital Partners LP**, which is now accepting subscriptions from accredited investors. As mentioned, moving forward, we will no longer be onboarding individual separate account clients.

Importantly, nothing will change as far as the investment strategy is concerned. The fund is adopting the same value-based approach as the one I've managed since inception, continuing to focus on quality businesses in the small cap space that are overlooked, underfollowed and mispriced. I am incredibly excited about the new structure, which has been in process for some time, and brings with it additional resources and upgraded infrastructure (we now have Trading, Audit, Admin and Legal service providers). If I've been guilty of anything so far, it's not trying to appear 'investable.' But as our track record grows, and my network expands, it's increasingly important to avoid being *too hungry to eat*, starving us of the resources necessary to grow.

For accredited investors interested in learning more, please visit our website or reach out anytime. I welcome inquiries and would be happy to set up a call or meeting. The next fund opening will be August 1st.

Please feel free to reach out anytime. Thank you for reading.

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Disclaimer: *Past performance is no guarantee of future results. Investing involves risks which clients should be prepared to bear, including but not limited to partial or complete loss of principal originally invested. Investing in small and microcap companies can result in additional volatility and higher risk due to comparatively low market capitalization, more sensitivity to economic and market conditions, and more limited managerial and financial resources. In addition, small companies typically trade in lower volume, making them more difficult to purchase or sell at the desired time and price or in the desired amount. Please refer to Form ADV Part 2 brochure for more information about Greystone Capital Management and its personnel.*