

WHITE FALCON

CAPITAL MANAGEMENT LTD.

July 20, 2026

RE: Q2 2026 Partner update letter

Dear Partners,

While individual client returns may differ based on their inception dates, consolidated performance of all accounts for the period ending June 30, 2026 is as follows:

	Q2 2026	YTD 2026	2025	2024	2023	2022	2021*
White Falcon (net of fees)	8.5%	1.8%	28.4%	14.4%	36.0%	-9.3%	-1.5%
S&P 500 TR (CAD)	17.3%	13.6%	12.2%	35.2%	23.2%	-12.6%	3.3%
MSCI AC TR (CAD)	16.4%	15.8%	15.9%	26.3%	18.5%	-11.9%	1.5%
S&P TSX TR	6.9%	11.2%	32.0%	21.7%	11.8%	-5.8%	-0.6%

*Performance is from Nov 8 - Dec 31, 2021

Our performance, both on a relative and absolute basis, has been underwhelming. Between rapid advances in AI and the conflict in Iran, this has been one of our busiest research periods, though with little immediate ROI. AMD made a meaningful positive contribution to performance, but those gains were partially offset by declines in other positions. Also, in a market that has continued to move higher, even positions that merely tread water can become a meaningful drag on absolute performance. While we don't manage the portfolio with a short-term mindset, we're acutely aware that the long term is nothing more than a series of short term time periods.

White Falcon portfolio looks very different from the popular indices shown above. Our primary benchmark for success is generating positive absolute returns adjusted for risk over a complete market cycle. In this letter, we'll explain how we're positioned today, why our portfolio has behaved differently from the broader market, and why we remain confident in our investments.

Before we do that, let's talk about **Advanced Micro Devices (AMD)**. We purchased our initial position in AMD in October 2022 at about \$80 per share when the stock was depressed due to weak outlook for its end markets. As is often the case with the market, when it does not like a stock or a sector it discounts it severely and we were able to purchase a cyclical stock (yes, semiconductor stocks were cyclical then!) with a net-cash balance sheet at a depressed multiple of depressed earnings. Our investment was underpinned by our confidence in AMD's management team, its engineering culture, and its ability to consistently deliver competitive products. It turns out that CPU's, AMD's core product, are needed for Agentic AI! The stock took off earlier this year and is currently trading at above \$500 per share. From our perspective, the upside we captured was not due to any attempt to predict AI's trajectory, but simply the result of owning a quality company in a secularly growing sector, run by a strong management team at a sensible valuation.

As we've said before, high-quality businesses possess optionality that simply isn't available to mediocre businesses and even as these businesses trade at higher multiples, this optionality is often undervalued.

Today, the world can't seem to buy enough semiconductor stocks, and AMD trades at a valuation that reflects a very optimistic consensus about its future. While those expectations may well prove accurate, forecasting that kind of trajectory is not our strength. For that reason, we've sold roughly three-quarters of our AMD position.

The same dynamic applies to many of our current holdings. Like AMD in October 2022, these are fundamentally strong businesses operating in attractive sectors, led by capable management teams, and because of one reason or another, available at reasonable valuations.

Let's take **Nu Holdings (Nu)** as an example. Nu Holdings, a top 5 position in the portfolio for the last three years, is a leading digital financial services platform in Latin America. By combining a technology enabled low cost operating model with prudent risk management, Nu has achieved a rare combination of rapid growth and exceptional profitability. After reaching a high of \$18 earlier this year, Nu's shares declined to as low as \$11 before recovering to \$13.50 per share recently.

The market remains focused on three issues: a potential deterioration in Brazil's credit cycle, political uncertainty ahead of the Brazilian elections, and Nu's expansion into the U.S. Nu is led by one of the strongest management teams in our portfolio, with a long track record of disciplined execution and prudent risk management. IFRS 9 requires banks to recognize expected losses well before a loan becomes non-performing. While this has increased provisions, the data does not yet indicate a deterioration in actual credit losses. The U.S. expansion, on the other hand, may offer significant upside. The market is focused on the near-term costs of building the business, whereas we view those investments as modest relative to the potential opportunity. If Nu can replicate even a fraction of its success in Latin America, the U.S. business could become a meaningful driver of long-term shareholder value.

This is what the financials look like for Nu:

	2023	2024	2025	2026E	2027E
Customers (millions)	94	114	131	146	158
Net Revenues (US \$bn)	3,491	5,253	6,625	9,324	13,379
Net Income (US\$ bn)	1,031	1,972	2,869	4,275	6,565
EPS	0.21	0.39	0.57	0.85	1.31
ROE	18.0%	28.0%	30.0%	31%	34%

In all this short term ‘noise’, investors are overlooking the fundamental economics of the business. Nu is growing earnings per share at approximately 50% per year while generating returns on equity in excess of 30%. This combination is exceptionally rare! At the current share price of approximately \$13.50, the stock trades at 16x our 2026 earnings estimate, a valuation that we believe significantly undervalues the quality, growth, and long-term compounding potential of the business.

Last quarter, we wrote that software is either a fantastic opportunity or a potential value trap. Time has shown that it is a little bit of both! The market has already re-rated cybersecurity and infrastructure software companies and determined that they are a ‘winner’ in an AI world. While we knew of the opportunity in these sub-segments of software, valuations here have never been attractive enough to establish a position. On the other hand, the market has also continued to severely punish horizontal software companies where we have no exposure. We have a unique mix of software companies trading at reasonable valuations where subsequent research has further strengthened our conviction in these businesses.

You might reasonably ask: *why bother with software at all?* The market clearly doesn’t like it.

Software is a fantastic business model. A software company invests heavily upfront to build a product that makes its customers more productive, more reliable, and more efficient. Once that software becomes embedded in a customer's daily operations, it often becomes part of the company's infrastructure. The customer pays an annual subscription to continue using the software. Crucially, that subscription is usually a tiny fraction of the value the software creates and a very small percentage of the customer's overall operating costs. Meanwhile, good software companies continue to improve the product, add new functionality, and sell additional modules, increasing the value of the relationship over time.

Contrast this with a company that manufactures widgets. A widget manufacturer starts each year at zero. To generate the same revenue next year, it must manufacture and sell the same number of widgets all over again. To grow revenue, it must produce even more widgets, requiring additional factories, machinery, inventory, labor, and logistics. An oil or resource company must not only replace the production it extracts each year but also replenish its reserve base. Consequently, a portion of reported free cash flow must be reinvested simply to sustain the business. With software, once the product has been built, it doesn't need to manufacture another copy every time a customer renews. The cost of delivering the next subscription is almost zero. As the customer base grows, revenue can compound far faster than

costs, creating a business with recurring revenue, high margins, strong cash generation, and exceptional returns on capital. We believe valuations now offer a rare opportunity to buy exceptional software businesses.

Topicus (TOI.V), a portfolio company, is an excellent example. Topicus acquires and develops mission-critical software businesses that serve highly specialized vertical markets such as healthcare, education, public administration, finance, and legal services. Trading at close to 8x EV/EBITDA (incl. Asseco proportional stake), Topicus has compounded revenue at more than 20% while maintaining EBITDA margins near 30% and recycling all free cash flow into acquisitions at attractive returns.

Of course, the concern weighing on Topicus today is the fear that AI will disrupt the business. After attending Constellation Software's AGM and speaking with several senior leaders, our takeaway was that AI is more likely to strengthen than weaken Topicus' competitive position. First, Topicus has access to the same AI models as any AI-native competitor. Second, its businesses possess deep customer relationships and decades of workflow expertise across highly specialized verticals. Finally, Topicus' decentralized model allows hundreds of operating companies to experiment with AI, with capital flowing to the highest return opportunities. Rather than being disrupted by AI, we believe Topicus is well positioned to use it to enhance the value of its software and strengthen its competitive moat.

The biggest detractor this quarter was **EPAM Systems (EPAM)**. We have stubbornly held the stock for some time and as the saying goes there is sometimes no difference between being early and being wrong. While the underlying business has remained resilient and a net-cash balance sheet, the stock has now de-rated to approximately 4x EV/EBITDA and 7x P/E. The challenge in IT services is that AI is evolving so rapidly that many enterprises are delaying large digital transformation projects as they wait for the technology to mature. We believe this is a timing rather than a structural issue. In fact, AI should ultimately increase demand for sophisticated engineering as companies modernize legacy systems and integrate AI into their workflows. As AI capabilities have advanced, the leading labs have recognized that the real bottleneck is no longer model development but enterprise deployment and integration. This has driven investment in forward-deployed engineering (FDE) teams and, in some cases, acquisitions of companies with these capabilities. EPAM has spent decades building exactly this type of organization. If AI becomes ubiquitous, we believe the value of trusted engineering partners that can integrate and operationalize these technologies should increase, not decrease. If anything, the best engineers become even more valuable in an AI world, and that has long been EPAM's competitive advantage.

We also take solace in the fact that there is substantial strategic value in EPAM. Recently, one of EPAM's peers, Nagarro, agreed to be acquired by Persistent Systems at approximately 9.1x EV/EBITDA and 1.3x revenue - more than double EPAM's valuation!

Lastly, **precious metals** including gold and silver and their related equities have been consolidating since the big run last year. As you may recall, we trimmed our precious metal royalty exposure after that advance. More recently, we have been adding on weakness, bringing

the allocation back toward the upper end of our 10-15% target range. We continue to view precious metals as an attractive portfolio diversifier and a prudent hedge against elevated deficits, financial repression, and geopolitical uncertainty.

There is a common thread running through these investments. While much of today's market is driven by momentum and narrative, we are trying to buy good businesses when expectations are low and valuations are attractive. Valuation remains the anchor of our investment process. It keeps us disciplined when others become overly optimistic and gives us the confidence to act when others are fearful.

"It's tough to find values when everybody is preferring gambling"

- Warren Buffett

At the same time, markets have evolved. With passive investing and systematic strategies accounting for a much larger share of trading, stock prices can remain disconnected from fundamentals far longer than they once did. There are simply fewer investors doing fundamental work willing to buy businesses because they are inexpensive. As a result, undervalued stocks can become even more undervalued before sentiment eventually turns. While this does not change our belief that valuation drives long-term returns, it does remind us to be more patient with our capital and more disciplined about when we choose to act.

The **top 5 positions** in the portfolio are Precious Metals royalty companies, Nu Holdings, Unity Software, NFI Group and Amazon. We look forward to hearing from our portfolio and watchlist companies this earnings season, particularly to understand how management is thinking about inflation and deploying AI within their organizations.

Artificial intelligence is one of the most exciting technological developments in decades. At the same time, a growing portion of today's economic growth is dependent on AI and its continued growth. An increasing risk in the market today is that if adoption or returns take longer than expected, the impact could extend beyond technology companies and weigh on broader economic growth. As more of the economy becomes tied to a single theme, it also becomes more fragile. We think this is something that needs to be monitored closely.

In closing, I want to express my sincere gratitude to each of our investor partners. Please feel free to reach out to me at any time with any questions, concerns, or feedback.

With gratitude,



Balkar Sivia, CFA
Founder and Portfolio Manager
White Falcon Capital Management Ltd.

WHITE FALCON

CAPITAL MANAGEMENT LTD.

INVESTMENT PHILOSOPHY

White Falcon's mission is to compound capital on a risk adjusted basis with a value investing philosophy.

We believe in active stock picking and draw inspiration from the teachings of Warren Buffett and Charlie Munger.

Our process is to take advantage of volatility and opportunistically invest in good quality and growing businesses that have durable competitive advantages and are run by aligned management teams.

With our research intensive strategy and a mandate to invest across geographies and sectors, we are focused on generating absolute returns.

We invest with a margin of safety. We are opportunistic and price sensitive buyers of securities.

NO MANAGEMENT FEE

Incentive fee of 15% on profits, with a high water mark - inspired by Warren Buffett's partnership structure

ALIGNED

All of Balkar's capital invested alongside limited partners capital. Windermere also has a significant amount of capital in the strategy

EXPERIENCED

Balkar has 15 years of investment management experience. He was a Vice President at Burgundy Asset Management and an Analyst at McElvaine Investment Management. He is a CFA charterholder and has an engineering degree from UBC.

SIMPLE STRUCTURE

Separately managed accounts (SMA) with Interactive Brokers. Full transparency on portfolio and balances. No leverage/options. Minimum investment of \$200,000.

DIGITAL ONBOARDING

Three step onboarding starts with filling out the 'Invest' form on our website

INVEST WITH US

<https://www.whitefalconcap.com/invest>

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