

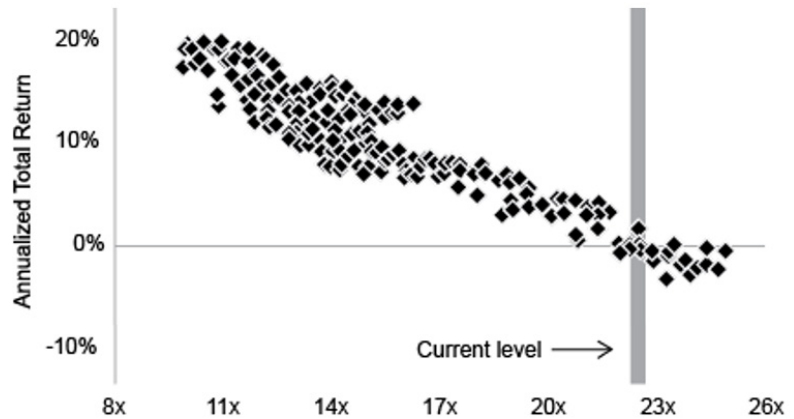
Quarterly Manager Commentary

Q3 2025

Markets of late have shown remarkable strength and are seemingly unstoppable. But what does the future hold? We're going to delve into that question in this commentary and share a couple of charts that we recently came across. We're also going to describe how we have upgraded our portfolio over the years and how this sets us up for what we believe will be attractive returns in the years ahead. Importantly, we have accomplished this upgrading while at the same time increasing valuation attractiveness. Today, the portfolio trades below its historical earnings multiple even as its forecast earnings growth over the next five years and beyond is meaningfully higher. And finally, we are going to discuss the recent lagging of our unit prices versus the broad market. We think by the end of this commentary you will appreciate how interconnected these three topics are: the changes we have made to the portfolio over the past number of years are the main source of our recent lagging and yet we believe these very changes set us up for much better returns going forward.

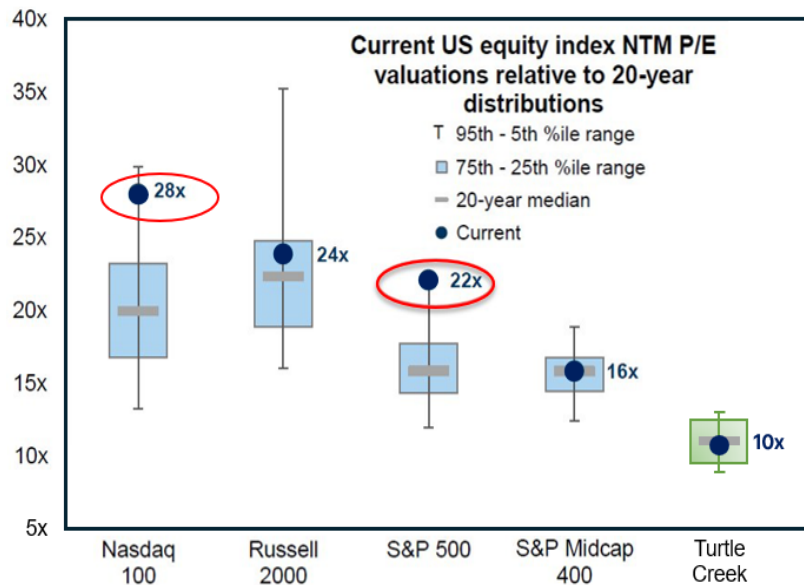
To start, let's turn to what one might expect from here in terms of investment returns, both for the broad market and for Turtle Creek. The first thing to understand is that in the very, very long term **all** stock market returns come from corporate earnings and the growth in those earnings. However, in the shorter and medium terms (think 5, 10 and even 20 years) **most** stock market returns come from earnings multiple expansion or contraction. We wrote about this years ago in one of our Taos of the Turtle, [What Kind of Return, Part I](#), where we observed that from 1984 to 2000 an investor in the S&P 500 enjoyed 18.3% annualized returns, but during those 16 years earnings grew at a rate of 5.9% a year. More than 2/3rds of the returns came from expanding traded multiples. Then, in the next 11 years, investors made zero return owning the S&P 500 even though earnings during this period grew at an annual rate of 5.2%. Despite a similar earnings growth rate, returns were 18.3% in one period and zero in the other – all explained by expanding and contracting earnings multiples.

On the following page is a very interesting chart prepared by J.P. Morgan.¹ It plots the traded multiple of the S&P 500 at any given time against the subsequent 10-year returns earned by investors. The striking thing about this chart is how high the correlation is between the beginning earnings multiple and the subsequent 10-year return. With the S&P 500 currently at 22x earnings, history suggests that the next 10-year return is likely in the range of -1% per year to +2% per year.

S&P 500 forward P/E ratios and subsequent 10-year returns

And by the way, there has been essentially no change to earnings growth: In the past 20 years, S&P 500 earnings have grown at 6.3% per year.

Below is another interesting chart, this one prepared by Goldman Sachs.² It shows the range of earnings multiples that various indices have traded at over the past 20 years. You can see the S&P 500, at 22x earnings, is in the top fifth percentile compared to the past 20 years. By contrast, the S&P 400 Midcap index appears much more reasonably valued, trading right in the middle of its 20-year average.



We have added Turtle Creek's 20-year history to this chart and there are a couple of things to note. First, our earnings multiple has been materially lower than any of the indices over the 20 years. Second, the earnings multiple range over which our portfolio has traded is much tighter. Unlike the broad indices, Turtle Creek's returns over the years have come from earnings and the growth of those earnings, not from multiple expansion.

Today, our portfolio – at 10.4x earnings – is below the median of our history which has ranged from 9x to 13x. While the earnings multiple is right in line with our history there are two key differences today: higher future earnings growth and higher quality earnings. Over the next five years, the earnings of our portfolio are forecast to grow at greater than 20% per year. This is quite a bit higher than in our history. And, as we describe below, the quality of those earnings is also higher, meaning that the riskiness of the forecast earnings is lower than in the past. This sets us up for higher expected returns with lower risk.

Let's delve into this more deeply. Twelve years ago, our investment team was comprised of five professionals – the three founding partners plus two. Today, we are twelve professionals – the three founding partners plus nine. This larger team allows us to closely follow many more companies, while maintaining our target number of holdings of 25 to 30. As a larger team, we can formulate a view of intrinsic value on many more companies, resulting in a meaningful improvement to the attractiveness of the portfolio.³ Owning the most attractively valued 30 companies out of more than 100 that we actively follow today results in a portfolio with a much higher expected return as compared to a portfolio constructed from the most attractively valued 30 companies out of, say, 35.

Today, only five companies remain in the portfolio from twelve years ago – including Premium Brands, TFI International and Gildan Activewear. Of the companies that have been removed, roughly half have been taken private. Most of the other half we continue to admire. For example, companies such as Alimentation Couche-Tard and Dollarama. These companies are on our TC100 list but are not in the portfolio today purely because of relative valuation. Should they become more attractively priced, we would add them back to the portfolio.

The goal of expanding the investment team was to identify more **exceptional** companies. Our focus has always been on the quality of the business, the nature of the industry in which it operates and the integrity and caliber of the management team. We are looking for 'highly intelligent organizations' that are constantly searching for ways to develop an edge over their competition and earn superior investment returns for their shareholders. Through this process, we have found many companies that are equally as 'intelligent' as our long-time holdings such as Gildan and TFI. This has raised the average quality of the companies in our portfolio.

As our universe of investable companies has grown, so has the importance of differentiating between them. Evaluating business and management quality has always been a critical part of our investment approach and target weightings. We could have two holdings that are trading at the same earnings multiple with identical long term earnings growth and yet, by the time we factor in our other assessments, the target weighting for one company could be double that of the other.

While judging business and management quality is, by its nature, subjective, there is no question that the average company quality today is meaningfully higher than 12 years ago. Even our holdings from 12 years ago, such as Gildan, Premium and TFI, earn a modestly higher score today as they've matured into larger, more diversified and more resilient businesses.

To provide you with greater insight into the flagship portfolio, we have placed our companies into three categories: 1. Companies that are the leader and largest in their industry; 2. Companies that are the best run but not the largest in their industry; and 3. Strong niche businesses. In each category we provide one or two examples to give you a flavour of what we own and why.

Category 1: Leader and largest in their industry (35% of the portfolio)

Twelve companies, comprising 35% of the portfolio, are the leader and the largest in their respective industries. Of course, they don't all operate in large industries but keep in mind that the average market capitalization of the companies in our portfolio is \$10 billion. These are large companies.

Service Corp. is the largest funeral home and cemetery operator in North America. You may recall that there were three 'roll up' companies back in the 1990's – Service Corp., Loewen Group and Stewart Enterprises. All of them were acquiring funeral homes at ever increasing prices and using debt to fund their purchases. It did not end well and all three had to restructure. The new management team that restructured Service Corp. (20 years ago) is still running the company today. And, over the years, Service Corp. acquired both Stewart Enterprises and large parts of Loewen Group. It really is a remarkable story that has positioned them to be the largest and best run company in the industry, by a significant margin. Despite being, by far, the largest in their industry, their market share is still only 17%. They have the management team and scale to continue to grow, both through taking market share organically, and through 'bolt-on' acquisitions. We identified the company eight years ago and have been a shareholder ever since.

WillScot Holdings is the dominant provider of turnkey space solutions in North America: modular offices, temporary classrooms, portable storage containers, etc. WillScot has consolidated what was once a fragmented industry, improving competitive behaviour and creating scale advantages that translate into pricing power. Management is focused on optimizing to drive more value out of their scale. WillScot is by far the share leader and sets pricing at a premium to competitors due to their service advantage. While it is a mature industry, we think WillScot will continue to grow through bolt-on acquisitions as well as expanding into adjacent offerings. We added the company to the portfolio last year. Since then, the share price has declined and we have added to our position making it a top five holding in the portfolio.

Category 2: Companies that are the best run but not the largest in their industry (45% of the portfolio)

Eleven companies, comprising 45% of the portfolio, are the best run in their respective industries even if not the largest. A couple of examples are provided below.

Ashtead Group, the parent company of Sunbelt Rentals, is the second largest equipment rental company in North America. A few years ago, we were doing work on the largest equipment

rental company – United Rentals – so we also looked at Sunbelt. Ultimately, we admired United but concluded that we preferred Sunbelt's strategy and, as their valuations were similar, we chose to add Ashtead last year. United has tended to grow through large acquisitions while Ashtead's growth is a mix of greenfield expansion and small bolt-on acquisitions that can deliver a more attractive ROI. The CEO has been with the company for nearly 30 years and has been the architect of its growth in North America which now represents 95% of the business (the company started in the UK). The equipment rental industry is dominated by Ashtead and United (you need to add up the next four or five competitors to get to the size of Ashtead) and we believe the industry dynamics are positive with many years of continuing consolidation and geographic and product expansion.

Kinsale Capital Group is a specialty insurance company operating in the U.S. excess and surplus market. While they are not the largest in the industry – that honour goes to Lloyds of London with over 17% market share – Kinsale has about a 2% market share but is growing very quickly. The company was founded 15 years ago and is still run by the founder and his long tenured team. They have an underwriting approach and discipline that provides them with significant advantages. As well, they are as much a technology company as they are an insurance company and, as a result, have a profound cost advantage relative to the competition, that we believe is sustainable. It is an example of a highly intelligent company that we believe will continue to make the right decisions for their shareholders for the long term. We added Kinsale to the portfolio last year and expect to remain shareholders for a long time, subject, of course, to valuation.

Category 3: Quality niche businesses (15% of the portfolio)

Seven companies, comprising 15% of the portfolio, fall into the category of quality niche businesses. These companies are neither the largest nor the leader in their industries, but they occupy strong, defensible positions within attractive niches – and, importantly, they trade at attractive valuations.

Bread Financial provides white-labeled credit cards (private label or co-branded) and 'buy now, pay later' lending as well as related loyalty program and marketing services for brand partners in North America including AAA, the NFL, Ulta Beauty, and numerous others. It also offers high yield deposit accounts to consumers under its own Bread Financial brand. It is neither the largest in its industry nor do we think of it as the leader. That acknowledgement goes to a company called Synchrony Financial which is five times larger than Bread. We know Synchrony well and in fact own it today, just not in our flagship fund. Bread's management team is strong and the board is shareholder aligned. Once we introduce valuation, Bread is superior to Synchrony at current share prices such that today it is one of the largest holdings in the flagship fund.

Turning to our recent returns that are lagging the indices, it is important to understand that we often lag the market, sometimes meaningfully. This has always been the case and for certain it will be the case at times in the future. We own a concentrated portfolio that looks nothing like the indices. There is a concept in the investment world called 'active share' which is a measure of how different a manager's portfolio is to a market index. Our Active Share is incredibly high at 97.5% meaning we are only 2.5% the same as the indices. We are bottom-up owners of a concentrated portfolio of unique public companies.

Our ongoing focus on continually increasing the attractiveness of the portfolio means that our traded price frequently suffers in the short term. We are often selling companies that are seeing sustained upward moves in their share price, and conversely, we are buying companies that are seeing downward moves in their share price. As a result, the primary source of our recent lagging is from the very changes we have made to the portfolio over the past few years. In fact, we would have a higher unit price today if we hadn't made these changes. When we describe this, some investors respond that "maybe you shouldn't have made the changes". But then we explain that we are happy with these changes and confident that they will, over time, drive our unit price higher than it would have been without them.

BRP (formerly known as Bombardier Recreational Products) provides an example of a short term negative impact on our unit price after adding a new holding. We had owned BRP for five years in Turtle Creek Canadian Equity Fund, but it had never made it into the flagship fund. Early in 2024, after the share price declined into the mid-\$80s, we judged it was attractive enough to be added. While the share price fluctuated over the next 18 months, including a couple of times trading above \$100 per share, by the middle of 2025 the share price had declined into the mid-\$40s, and we had, of course, added to our position as the price declined. As of this writing, the share price has recovered to around \$95, above where we initiated the position. So now, a buy and hold is modestly positive while our returns are higher owing to our activity. And yet, until very recently, BRP was a negative contributor to our unit price performance that was exacerbated by our purchase of more shares at lower and lower prices. This is typical for us. Remember, our approach involves adding companies when they are attractively valued – which often means after a share price decline. Many times (although not always) the share price continues to decline and, as with BRP, we purchase additional shares.

In conclusion, amidst frothy markets, we believe our portfolio offers a compelling opportunity regardless of whether markets remain frothy or come back down to earth. Our returns over time have come from the earnings and earnings growth of our companies – not from market enthusiasm and multiple expansion, or pessimism and multiple contraction – and the fundamentals of the portfolio have never been stronger.

Quarterly Results

Unit Price Results

During the quarter, the net asset value of the **Turtle Creek Equity Fund** increased by 0.4%.⁴ This was behind the S&P MidCap 400 index which increased 7.7% and the S&P/TSX Completion index which increased 16.3% (both in Canadian dollars).⁵ We added four companies and removed three, to end the quarter with 31 holdings.⁶ 70% of the portfolio was invested in U.S. companies and 30% in Canadian companies.

Turtle Creek Synthetic PE Fund ("TC SPEF") increased 1.4% during the quarter.⁴ We added three companies and removed three, to end the quarter with 25 holdings.⁶ 68% of the portfolio was invested in U.S. companies and 32% in Canadian companies.

Turtle Creek United States Equity Fund ("TCUS") decreased 1.0% during the quarter, compared to the S&P MidCap 400 index which increased 5.5%, both in U.S. dollars.^{4,5} We added four companies and removed two, to end the quarter with 29 holdings.⁶

Turtle Creek Canadian Equity Fund ("TCCF") increased 7.8% during the quarter, compared to the S&P/TSX Completion index which increased 16.3%.^{4,5} We made no additions or removals, to end the quarter with 21 holdings.⁶

Business Value Results

Changes in Portfolio Business Values during the quarter are shown below.

	TCEF	TC SPEF	TCUS (US\$)	TCCF
Quarterly change in Portfolio Business Value	0%	-2%	0%	2%

Disclosures

Return Information Sources: Turtle Creek Asset Management Inc. ("TCAM" or the "Manager"), Bloomberg.

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Certain economic and market information herein has been sourced from third parties believed to be reliable but has not been independently verified. The Manager and its affiliates accept no liability for the accuracy, reliability, or completeness of such information

Endnotes

1. Source: JP Morgan Asset Management.
2. Sources: Compustat, FactSet, IBES, Goldman Sachs Global Investment Research.
3. A company's intrinsic value or Business Value represents our best estimate of the present value of such company's future cash flows and is necessarily comprised of many assumptions, the use of which includes a number of risks and uncertainties that may cause actual values to differ from our estimate. A Fund's Business Value is calculated using our estimate of Business Value for each company, weighted based on the portfolio's holdings. Any discussion of portfolio holdings does not constitute a recommendation to buy, sell, or hold any individual security. Information about past investments made by the Manager is included for illustrative purposes only, to explain specific characteristics or outcomes associated with certain investments and to assist in better understanding the Manager's investment strategies and processes.
4. Based on the change in net asset value of the Fund's Class I Series 1.0 Units.
5. The S&P/TSX Completion and S&P MidCap 400 are total return indices. The S&P/TSX Completion (formerly called the S&P/TSX MidCap) is a Canadian index that is comprised of the constituents of the S&P/TSX Composite Index that are not in the S&P/TSX 60. The S&P/TSX 60 is a Canadian index that is comprised of the largest companies within the S&P/TSX Composite index. Comparisons to certain indices and benchmarks are provided for illustrative purposes only and are intended to indicate broad market performance and characteristics. Such comparisons are limited in part because indices and benchmarks are not managed and do not charge fees or expenses. A Fund may underperform or outperform an index or benchmark for many reasons.
6. Holdings that constitute less than 0.25% of the Net Assets of TCEF are not included in the number of holdings. Similarly, holdings that constitute less than 0.1% of the Net Assets of TC SPEF, TCCF and TCUS are not included in the number of holdings.