Wealth Management | Steinberg Equity Strategies | Steinberg High Yield Fund | Performance

> *More money has been lost trying to anticipate and protect from corrections than actually in them*
>
> *– Peter Lynch*

Lorne Steinberg,
MBA CFA
CO-PRESIDENT

Stairs up, Elevator down.

Dear Client,

In the immediate aftermath of the U.S. election, equities climbed on the back of investor optimism. Expectations of lower corporate taxes, deregulation, and a pro-growth agenda fueled a strong rally. But that momentum has since been tested. The White House decision to implement tariffs on key trading partners has injected a new layer of complexity into the global outlook.

Markets have responded in kind - pulling back amid rising concerns over inflation, supply chain stress, and the broader risk of economic deceleration.

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In this environment, our strategy remains grounded in discipline, not emotion. Rather than respond to headlines, we remain focused on constructing a portfolio built for durability, one that is diversified, and anchored in quality.

Our technology exposure (names like Amazon, Alphabet, Microsoft, and Meta) has delivered meaningful long-term performance.

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As the market rotated, our positions in global consumer staples, including Kenvue, Kraft Heinz, Nestlé, and Unilever, added stability. Exposure to Canadian equities has also acted as a buffer, offering geographic and sectoral balance.

Looking ahead, we're prepared for more noise and more movement. But we are not reactive investors - we are long-term owners of exceptional businesses. We continue to believe that well-managed, competitively advantaged companies will prove resilient, regardless of political or macroeconomic turbulence.

On that note, we will highlight some of our holdings, as well as a few recent purchases that speak to the type of quality we are referring to:

Core Holdings

Berkshire Hathaway

Since Warren Buffett's involvement starting in the 1960s, Berkshire Hathaway has evolved from a struggling textile mill into one of the world's most admired conglomerates, with subsidiaries that span insurance, railroads, energy, and manufacturing, as well as a significant portfolio of publicly listed equities.

Its insurance businesses generate large amounts of low-cost "float" that can be reinvested into other entities, and thus Berkshire today owns a collection of wholly-owned businesses such as BNSF railways, Berkshire Hathaway Energy, Precision Castparts and McLane logistics.

In addition, their equity stakes include significant positions in companies like Apple, American Express, and Coca-Cola, reflecting Buffett's long-standing preference for high-quality, cash-generative businesses. Berkshire has always maintained a fortress balance sheet, which allows the company to take advantage of opportunities.

This combination of conservatively managed operations, savvy capital allocation, and an extremely solid financial footing gives it a resilience that is rare among large-cap companies. While the market often frets over succession, the decentralized structure and deep bench of capable managers leave us comfortable owning it for the long term.

BERKSHIRE HATHAWAY INC.

Railways

The Canadian strategy owns both Canadian National Railway (CN) and Canadian Pacific Kansas City (CPKC). The railway sector in North America is a consolidated industry with high barriers to entry, ensuring a stable competitive landscape. Rail also has the structural advantage of being lower cost than trucking for long-distance transportation.

Revenue growth is driven by economic activity and increasing trade, and the industry benefits from significant operating leverage, as increased freight volumes lead to higher revenues without a proportional rise in costs.

Established in 1919, Canadian National Railway (CN) operates a rail network of 19,500 miles, spanning the breadth of Canada and reaching deep into the US Midwest, carrying goods ranging from grains and petroleum to consumer goods and automotive products.

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CN has been an industry leader in efficiency, maintaining one of the lowest operating ratios among its North American peers. Their pricing power, disciplined cost management, and strategic capital investments in infrastructure and technology have made them a standout performer. With a strong balance sheet, a consistent track record of dividend growth, and ongoing efficiency improvements, CN remains well positioned for long-term growth and profitability.

Formed in 2023 through the merger of Canadian Pacific Railway and Kansas City Southern, CPKC is North America's first and only pan-continental operator, with a network of some 20,000 miles connecting Canada, the US and Mexico. The merger unlocked significant growth opportunities by streamlining cross-border trade and reducing transit times for key industries.

The company boasts a strong balance sheet and, with prospects of an improving operating ratio, should be able to deliver some of the best profit growth found among North American railway operators. These attributes support a growing dividend, and further reinforces its appeal as a core infrastructure holding.

Recent Purchases

Canadian Natural Resources

Canadian Natural Resources (CNQ) is Canada's largest energy company, with a diverse portfolio spanning oil sands, conventional crude oil, and natural gas, and boasting proven reserves of over 30 years of current production.

While obviously exposed to commodity price volatility, unlike many of its peers, CNQ is a fully integrated producer, controlling everything from extraction to processing. As a result, they have been able to derive significant cost efficiencies, making them the low-cost producer in the sector.

This was in evidence in 2020, when the oil price averaged just US$39 per barrel. Unlike many of its peers who suffered significant losses, CNQ remained solidly free cash flow positive and even increased its dividend.

Management has an exceptional track record of disciplined capital allocation, balancing production growth with dividends and share buybacks. In fact this company has increased its dividend every year for 25 consecutive years, since the first dividend was paid in 2001.

With a strong balance sheet and continued cost optimization, the company is well-positioned to benefit from any upside in oil and natural gas prices while maintaining its resilience during downturns.

Finning International and Toromont Industries

Finning and Toromont are Canada's two dominant Caterpillar equipment dealers, each operating in distinct regions. **Finning** is the world's largest Caterpillar dealer serving Western Canada, several South American countries, and the UK & Ireland, with key customers in the extractive industries.

Toromont by contrast, focuses principally on Eastern Canada (with a small U.S. division) and has more of an infrastructure - focused client base. Toromont is also one of North America's leading providers of industrial refrigeration systems, with a particularly strong reputation in ice rink construction.

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Both companies enjoy the structural advantages of exclusive Caterpillar distribution rights and generate almost half of their revenues from aftermarket services and support. While cyclical end markets such as construction and mining can lead to earnings variability, their strong balance sheets, disciplined capital allocation, high returns on invested capital, and strong free cash flow make them compelling long-term investments.

Toromont has increased its dividend for 36 consecutive years, while Finning has increased its dividend for 23 consecutive years.

Our decision to own both reflects their complementary geographic exposures and ability to capitalize on infrastructure spending, resource development, and the ongoing need for equipment servicing and replacement

Final Thoughts

The stock market never moves in a straight line, and recent developments in U.S. trade policy are a sharp reminder of that truth. While no one welcomes steep market declines, periods of repricing are a natural part of the investment cycle—especially following two years of exceptional gains.

It has been said that for investors, it can sometimes feel like the stock market takes the stairs up, and the elevator on the way down. The trip on the way down can also be an emotional one, testing even the most seasoned investors. However, we must remain disciplined - investing in quality, rebalancing when needed, and avoiding the noise of "this time is different" thinking.

This time is not different. The best companies always seem to survive, grow, buy back shares, increase dividends, and create shareholder value. It is the investors who are confident in their strategy and asset allocation who should be sleeping well at night these days.

The quote at the top of the page reminds us that staying invested in great businesses has proven far more lucrative than attempting to predict U.S. policy movements, interest rates, or recessions.

Sincerely,

Lorne Steinberg
Co-President

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