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> *The big money is not in the buying and the selling, but in the waiting.*
>
> ***– Charlie Munger***

Lorne Steinberg,
MBA CFA
CO-PRESIDENT

The Get-Rich-Slow Scheme

Dear Client,

Every few years, the market produces a new way to get rich quickly. The names and ideas change: Nortel, a cryptocurrency, a meme stock, marijuana stocks … a single company that supposedly cannot lose. However, the uncomfortable truth is that such speculation is far more likely to result in wealth destruction versus wealth creation. Wealth is usually not built quickly. Instead, it is compounded, patiently, over years and decades, by owning high-quality businesses while not getting caught up in the next "new" thing.

We refer to this approach as a "get-rich-slow" plan. It lacks the opportunity for overnight success, and it will never be the talk of a dinner party. But it has one decisive advantage: it has consistently and reliably worked over time.

A portfolio of great companies with strong track records of growth, and sustainable (and rising) dividends, will leave the thrill-seekers far behind. The investor's real edge is not a superior forecast …it's a longer time horizon and the temperament to stick with it.

This quarter's letter revisits a few of the businesses that embody this philosophy.

Holdings we bought when they were unloved, have held through ongoing volatility, and continue to own because the underlying value keeps compounding.

An excellent example of this is our investment in Canadian banks. The calendar year 2022 is one we would all like to forget. Central bankers had incorrectly identified the growing threat of inflation as "transitory" and were left with no choice but to raise interest rates quickly in order to stabilize prices. Canadian bank stocks declined 32% (peak-to-trough), as the market repriced the impact that higher rates would have on the sector. As is usually the case, the sell-off provided investors with a great opportunity to buy these great companies at a discount.

The Big Five banks have rallied sharply since 2022, comfortably outpacing the broader index. Just as importantly, the businesses themselves are performing well. Provisions for loan losses (the reserves banks set aside against bad loans) have been falling, and earnings have grown across the group. Royal Bank, for example, recently raised its dividend by more than 7% on the back of double-digit revenue growth. We intend to hold these businesses, even after their strong results over the past four years, given the continued prospects for further growth.

OUR VALUES • PERFORMANCE • REQUEST A CALL OR MEETING

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AI and the Picks-and-Shovels Trade

Much of the commentary on AI focuses on the handful of mega-cap technology names that dominate the headlines and, increasingly, the indices. That said, there are a number of companies that have become beneficiaries of the AI boom in the unglamorous businesses that supply the physical infrastructure those models require.

AI requires enormous demand for electricity, equipment, large scale physical structures that house computing infrastructure (data centers), and the people who build and service it. Several of our Canadian holdings sit directly in that path and are benefitting.

Finning International

As the world's largest dealer of Caterpillar equipment and parts, Finning serves as a vital operational partner to heavy industries across western Canada, Latin America, and the UK. The company sells, rents, and services heavy machinery tailored primarily for mining, energy, and large-scale infrastructure projects, including power systems for data centers.

A significant portion of its total revenue is derived from the service and support of these products, and thus their revenues are more stable, and profit margins greater than traditional cyclical manufacturing businesses. Supported by a robust balance sheet, a record order backlog and deep operational entrenchment in major global mining regions, the group is well placed to continue its decades-long track record of business growth and dividend increases.

Toromont Industries

Toromont operates as the authorized Caterpillar dealer for eastern Canada and, through its stake in AVL, is a major manufacturer, supplier, and servicer of custom power infrastructure and enclosures to the growing North American data center market.

Much like Finning, Toromont's appeal lies in its higher margin products and support services. Unlike Finning, they are more exposed to infrastructure spending, with the business functioning as a critical services provider, ensuring customers face minimal downtime.

A disciplined approach to capital allocation has resulted in delivering a multi-decade record of compounding shareholder returns and increasing dividends.

TOROMONT

Brookfield Corp

Brookfield Corporation is a premier global alternative asset manager with over $1 trillion in assets under management. The company owns, builds, and operates high-quality, long-duration infrastructure, renewable power, real estate, and private equity businesses.

A major growth driver for the business is the ongoing global infrastructure supercycle, whether it be in the renaissance of nuclear power or the explosive demand for digital infrastructure.

Supported by vast deployable liquidity, the company has had an exemplary record of buying distressed and undervalued assets and then optimizing them through operational expertise, Brookfield is a serial compounder uniquely positioned to thrive across all phases of the economic cycle.

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Quiet Performers

Of the various metrics used by investors to evaluate companies, free cash flow is one of the better indicators of value creation and remains one of the key pillars of our investment criteria. Free cash flow is simply the excess cash that a company earns, after spending what it needs to keep its business going. Companies can use free cash flow to:

- Pay dividends
- Buy back their own shares
- Make acquisitions

Using cash to fund growth by acquisition has often turned out to be a poor strategy, as too many of these do not achieve the hoped-for synergies.

However, there are many examples of some unexciting companies that have consistently used free cash flow wisely – to buy back their own shares and pay dividends, resulting in outstanding returns. Some of these may surprise investors. Here are three examples of companies we own that are not in the headlines, or discussed on golf courses, but have been important contributors to our results:

Cisco Systems

Cisco is the undisputed global leader in networking hardware, software, and security services that form the foundational architecture of the internet. The business has undergone a significant structural shift over time, toward subscription-based software and services, greatly improving the visibility and quality of its cash flows. Its recent strategic acquisition of Splunk, an observability & security analytics platform, now positions Cisco as a leader in cybersecurity – a fast-growing vertical in the technology space.

While growth has historically been slow and steady, today the company is benefiting from ongoing cloud adoption and AI-driven data center upgrades.

The business consistently delivers robust operating margins and generates substantial free cash flow, which has supported both a growing dividend and, moreover, a significant reduction in the number of shares outstanding through persistent share buybacks.

Cisco's 10 - year annualized return is 19%.

Allstate

Allstate is one of the largest property and casualty (auto & home) insurance providers in North America, operating through both a dedicated agent network as well as its direct-to-consumer National General banner. A disciplined underwriter, they are known for sophisticated data analytics, which allows them to price risk accurately and achieve industry-leading levels of profitability.

The business model requires relatively low capital intensity outside of regulatory reserves, allowing Allstate to convert its premium income into consistent free cash flow.

This financial strength has underpinned a long track record of both dividend growth and meaningful share buybacks which has seen the number of shares outstanding decline by half over the past 15 years.

Allstate's 10- year annualized return is 16%.

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American Express

Established in 1850, American Express has transformed from a freight forwarding company into a premier global financial services provider and a dominant player in the payments industry. Unlike Visa and Mastercard, Amex is a bank, and therefore it has a relationship with both the cardholder and the merchant involved in any transaction.

The company's primary competitive advantage is its premium brand equity and industry-leading rewards program, which attracts an affluent consumer and corporate customer base characterized by high spend volume and low credit risk.

The business operates with superior operating efficiency, translating robust revenue growth into high returns on equity.

Management has remained committed to returning excess capital to shareholders via steady dividend growth and continuing share repurchases.

AMEX's 10 - year annualized return is 20%.

AMERICAN EXPRESS

Final Thoughts

The title of this letter is inspired from a conversation whereby Jeff Bezos asked Warren Buffett why more investors didn't simply copy his investment strategy, given that he was the one of the wealthiest people on the planet. Buffett replied, "because no one wants to get rich slow."

The underlying principle reflected in Buffett's response is embedded within every holding mentioned in this letter. We are not in the business of "getting rich quickly," and are deeply skeptical of anyone who claims to be able to. We are in the business of "getting rich slowly," owning high-quality businesses at rational valuations, reinvesting our growing dividends, protecting capital through the downturns, and letting the mathematics of compounding do the heavy lifting over years and decades.

It is not a strategy that will ever feel terribly exciting, and in any given quarter it may look unremarkable next to whatever is soaring at the time. As the quote at the top of this letter reminds us, the big money is made in the waiting.

As always, we are grateful for the trust you place in us, and we remain committed to growing and protecting your wealth with discipline, patience, and conviction.

Sincerely,

Lorne Steinberg

Lorne Steinberg
Co-President

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