WHITE FALCON
CAPITAL MANAGEMENT LTD.

October 20, 2026

RE: Q3 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 September 30, 2026 is as follows:

	Q3 2026	YTD 2026	2025	2024	2023	2022	2021*
White Falcon (net of fees)	**2.7%**	**4.6%**	**28.4%**	**14.4%**	**36.0%**	**-9.3%**	**-1.5%**
S&P 500 TR (CAD)	2.7%	16.7%	12.2%	35.2%	23.2%	-12.6%	3.3%
MSCI AC TR (CAD)	1.1%	17.1%	15.9%	26.3%	18.5%	-11.9%	1.5%
S&P TSX TR	1.6%	13.0%	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, continues to be underwhelming. The portfolio performed well through August, but more than half of those gains were reversed during September. The portfolio has been affected by the sharp rise in interest rates this year, which has weighed on the valuation of certain holdings, despite continued progress in their underlying businesses. We also had no exposure to energy, a sector that did well this year and a sector we know well and have successfully invested in before. In addition, our investments in Rentokil and CoStar did not work out as expected. As the facts evolved and our conviction diminished, we sold the positions. The capital from these sales has been reallocated to higher-conviction investments where we see a more favorable combination of business quality and valuation.

Successful investing is not about avoiding mistakes altogether, but about recognizing them early, preserving capital, and reallocating it to better opportunities. This discipline has become even more important in today's environment, where technological innovation, particularly in

artificial intelligence (AI), is accelerating the pace of change across industries. As a result, we continuously reassess our investment theses and are willing to change our minds when the facts change.

The White Falcon portfolio continues to look 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.

The big detractors over the quarter have been our rate sensitive names including Rocket Companies (RKT) and Real Matters (REAL.TO).

Rocket Companies helps consumers find, buy and finance a home, then maintains the customer relationship through mortgage servicing and refinancing. It operates through three subsidiaries: Redfin facilitates home search and real estate transactions, Rocket Mortgage originates and sells mortgages, and Mr. Cooper provides ongoing loan servicing. This combination allows Rocket to earn revenue from brokerage commissions, mortgage origination and sale gains, as well as recurring servicing fees, creating multiple touchpoints throughout the homeowner lifecycle.

Rocket's combination of these three subsidiaries lower customer acquisition costs and increase the lifetime value of each relationship. Due to this, it has been winning market share every year. Under CEO Varun Krishna, management is using AI to automate paperwork, improve loan officer and customer service productivity. These investments should help Rocket process more business at a lower cost. Importantly, its strong balance sheet and recurring income from servicing mortgages gives it the capacity to navigate a period of elevated rates (unlike its competitors).

Similarly, when a lender needs to know what a home is worth, **Real Matters** runs a platform that assigns the job to a local appraiser, manages the process and checks the quality, keeping a portion of the appraisal fee for its services. The platform matches orders with local providers and monitors their accuracy, reliability and turnaround times. Its competitive advantage lies in its network of professionals, performance data and established lender relationships. Also, lengthy approval processes and integration into lenders' systems make these relationships difficult to replicate. Importantly, its appraisal relationships also provide a foothold for selling title services, creating another avenue for growth within an existing customer base.

Currently, elevated mortgage rates have reduced home purchase and refinancing volumes, weighing on both earnings expectations and the stock price for Rocket Companies and Real Matters.

So why purchase and continue to hold these companies?

The simple answer is that opportunities like this are rare. Housing in the U.S. is in a recession with housing starts at multi-decade lows. We must note that 21% of mortgages in the U.S. have rates over 6%. As contrarian value investors, we are often buying quality businesses when they

are trading close to their all-time lows. Over the longer term, however, the investment thesis does depend to some extent on interest rates moving lower and we have a reasoned view on that possibility.

We do not believe the rise in long term treasury yields primarily reflects higher long-term inflation expectations. Inflation breakevens have risen only modestly this year. Higher oil prices resulting from supply disruptions are initially inflationary, but they also weaken household purchasing power and dampen economic activity. The longer-term effect can be disinflationary, particularly in an environment where real wages are not keeping up with inflation.

Liaquat Ahamed's recent book, *1873: The Rothschilds, the First Great Depression, and the Making of the Modern World*, has a better explanation. In his book, he chronicles how the railroad boom created strains in capital markets and led to a rise in long term interest rates. Today, the buildout of AI infrastructure may be producing a similar dynamic. Massive spending on data centres, semiconductors, and power generation could be increasing demand, putting upward pressure on real interest rates. We believe that the recent rise in ***real*** treasury yields, despite relatively stable long-term inflation expectations, is consistent with that explanation.

We believe this real rate of approximately 2.7% is not sustainable over the long term given the trajectory of U.S. debt and deficit dynamics. Maintaining such restrictive real rates significantly increases debt servicing costs while placing considerable pressure on rate sensitive sectors of the economy. With the exception of AI-driven investment spending, much of the U.S. economy appears to be struggling under the burden of elevated borrowing costs. We believe our approximately 10% combined allocation to Rocket Companies and Real Matters offers an attractive risk-reward opportunity as both businesses have staying power in a high interest rate environment and substantial torque in a lower interest rate environment.

Higher interest rates have also weighed on valuations for more leveraged businesses such as Grifols (GRFS) and Canadian Solar (CSIQ).

At **Grifols**, strong demand for plasma derived medicines and ongoing operational improvements are supporting the company's recovery. We expect substantial free cash flow generation in the second half of 2026. As Grifols generates cash and pays down debt its interest expenses go down and refinancing needs diminish. The company also has another option - the IPO of their U.S. business. Grifols operates in an oligopoly in the US in collecting and processing plasma. A separate listing of this business in the US at multiples in line with its U.S. peers can substantially lower its debt balance and help re-rate the stock. Trading at approximately 9x forward earnings, we believe Grifols is materially undervalued relative to its intrinsic value.

Canadian Solar continues to expand its U.S. solar cell and module manufacturing footprint while growing its battery storage business. Although the company is still widely perceived as a commodity cell and module manufacturer, its newly established U.S. capacity, protected by tariffs and eligible for government production credits, represents a significant source of future earnings power. Although start-up and ramp-up costs are pressuring near-term results, these investments should strengthen earnings power as production scales through 2027. In addition, selective

sales of renewable energy projects could free up capital and support debt reduction. Stronger cash generation, improving earnings, and gradual deleveraging have the potential to create substantial shareholder value. In fact, Canadian Solar has one of the highest upside potentials in the portfolio based on a conservative sum of the parts (SOTP) analysis.

AI is accelerating the pace of change across businesses, putting even competitive advantages built over decades at risk. Faced with this uncertainty, markets often sell indiscriminately before it becomes clear which businesses will adapt and thrive.

For investors, the risk of error rises. A moat we believe is secure may be eroding faster than we recognize, while our training and biases keep us anchored to an outdated view. Investing has always required a balance between *conviction* and *flexibility*: enough conviction to withstand falling prices when the thesis remains intact, and enough flexibility to change course when the facts prove us wrong. As the pace of change accelerates, the ability to reassess our assumptions and change our minds becomes increasingly important.

Above all, we must preserve mental clarity and emotional discipline. Markets will continue to test our judgment, but our success will depend not on always being right, but on recognizing when we are wrong and responding rationally.

CoStar Group (CSGP) operates real estate information and advertising businesses, including its commercial property database, LoopNet, Apartments.com and Homes.com. We regard its commercial data franchise as an exceptional business where brokers, lenders and investors pay recurring subscriptions for detailed information on properties, tenants, rents and transactions. Decades of investment in collecting and verifying this information have created a database that is difficult to replicate, supporting pricing power and making CoStar deeply embedded in its customers' work. However, the earnings of these established businesses have been obscured by heavy spending to build Homes.com. Our thesis was that, as these losses diminish, consolidated earnings can grow considerably faster than revenue.

Our main concern is around its subsidiary, Apartments.com, which connects renters with available apartments and charges landlords and property managers to advertise their properties. We see AI agents as a potential threat to this model. An agent could search competing portals and landlords' own websites, compare suitable apartments and arrange viewings, reducing renters' need to visit Apartments.com directly. If the agent controls the customer relationship, the platform could lose some of its influence over which properties receive attention and landlords could become less willing to pay for prominent placement. While its commercial business still remains best in class, its residential business now has significant uncertainty due to which we chose to take a loss.

We also recently sold our position in **Rentokil Initial (RTO)** after three years of ownership. Rentokil is a leading pest-control provider whose competitive advantages include trusted brands, recurring customer relationships and dense service routes that allow technicians to serve at a lower cost per visit. In addition, there was an opportunity to improve earnings through operational improvements.

However, our confidence weakened as AI began changing how customers find pest-control providers. Google had been an important source of leads for Rentokil and its competitor Rollins. With their brands and marketing budgets these companies attracted customers through paid advertising and organic search. AI-generated answers are changing that and making customer acquisition less predictable. There is also the risk of a weak consumer. The opportunity to improve operations remains, but we became less comfortable with some of our assumptions.

The **top 5 positions** in the portfolio are Precious Metals royalty companies, Nu Holdings, Unity Software, Rocket Companies, and Amazon.

We have discussed the risks of indexing in these pages. As an active manager, we have an obvious bias, but our recent column in ***The Globe and Mail*** laid out the factual basis for our concerns (see **Appendix A**). As we highlighted, the S&P 500's ten largest holdings account for nearly 40 per cent of the index. Investors believe they are broadly diversified but in actuality they just own a concentrated AI fund.

Unlike the S&P 500, White Falcon's portfolio is diversified across Compounders, Value Today, and Value Tomorrow ideas in different industries. With the portfolio having made relatively little progress this year, we believe the margin of safety remains attractive. We often see inflows and referrals pick up after a strong year, when recent performance gives prospective partners greater confidence. However, periods like this can offer better entry points. For partners considering introducing White Falcon to friends or colleagues, we believe this is an opportune time for **referrals** and would greatly appreciate your introduction.

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

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Appendix A

THE GLOBE AND MAIL

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Why index investors may unknowingly be putting themselves at great risk

BALKAR SIVIA
SPECIAL TO THE GLOBE AND MAIL
PUBLISHED OCTOBER 12, 2026
FOR SUBSCRIBERS



DMITRII MUSKU/ISTOCKPHOTO / GETTY IMAGES

Passive investing has made investing cheaper and more accessible. Its success can also encourage a comforting assumption that buying the market removes the need to think about what is being bought. With a handful of companies dominating the S&P 500, that assumption deserves scrutiny.

There is a strong case for passive investing: low fees, broad market exposure and a long record of many active managers underperforming their benchmarks. These are real advantages.

But a low-cost fund can still own expensive stocks, and a long list of holdings can conceal considerable concentration.

Portfolio manager Michael Green, who recently co-authored a paper examining how growing passive ownership could make markets more unstable, argues that passive investors aren't truly passive.

He calls them the world's simplest systematic traders. The algorithm is: *Did you give me cash? Buy. Did you ask for cash? Sell.* There's no consideration of valuation, business quality, or macro conditions. It's all about flows.

Opinion: No country for retail investors: Are your ETFs a great product – or are you the product?

When John Bogle launched Vanguard's S&P 500 index fund in 1976, he gave investors a simple way to own the market at low cost. Index funds could rely on prices established by investors evaluating individual stocks.

In that era, the very small proportion of money in index mutual funds could get a free ride on the results and clearing prices established by everyone else, without impacting those prices.

Since then, passive investing has grown quickly, helped along by industry norms that turned broad, low-cost index funds into the easy recommendation.

Today, passive funds control more than 50 per cent of U.S. domestic equity-fund assets. Market cap-weighted flows have become large enough to influence prices rather than simply follow them. New money into the market automatically chases whatever has already gone up, reinforcing trends and supporting the market. In practice, this effectively turns passive tracking into active price setting.

The S&P 500 has become highly concentrated. Its top ten holdings, largely the biggest U.S. technology leaders, now account for nearly 40 per cent of the index. While there's nothing magical about the 40-per-cent figure, it's worth noting that it has marked market tops.

The Nifty Fifty, a group of 50 U.S. growth stocks in 1973, and Technology, Media, and Telecommunications (TMT) stocks in 2000, reached roughly the same share of the S&P 500 at their respective peaks. Also, Japanese stocks represented roughly 44 per cent of the MSCI World Index, which tracks developed markets, during its top in 1989.

At the core of today's concentration are the "Magnificent Seven," companies that carved out dominant niches, built ecosystems competitors struggled to enter, and generated substantial free cash flow.

Passive investing? That S&P 500 index fund is basically a tech fund

However, these tech giants now see dominating AI as an existential priority and are willing to spend hundreds of billions just to defend their moats. The comfortable, separate monopolies of the past decade have given way to direct competition, and the fight has turned into a bruising, winner-take-all contest.

Sure, some of these companies could emerge as huge winners from this AI arms race. But that's beside the point. What matters is that the passive index has shifted into a concentrated wager on AI succeeding and generating attractive returns on staggering amounts of capital.

As an investor in passive funds, yes, you're getting low costs, but you're no longer getting true diversification. And while these may be some of the best

businesses in history today, that doesn't guarantee their stocks will make good investments going forward.

It is also important to remember that passive investing has worked exceptionally well in the U.S. but not everywhere. Over the past 10 to 15 years, if you bought passive ETFs tracking China or Europe, your returns have been underwhelming. The U.S. has benefited from consistent net inflows, a strong currency, and a dominant tech sector. But this one-way bet on America isn't immune to reversal.

As the late Charlie Munger famously advised, "Invert, always invert." In this new market environment, we must ask ourselves the inverted question: What happens when the persistent "buy" order for passive funds reverses?

If these passive flows were to ever reverse in a meaningful way, the lack of traditional, active buyers (as there are very few true active investors left in the market) could trigger a steep and dramatic market decline. This scenario represents a significant systemic risk, highlighting the fragility beneath the surface of today's seemingly stable, passive-driven market.

Gen Z is obsessed with dividends. But at what cost?

Passive funds still have many merits, but they've become far more concentrated than most people realize. If you own a S&P 500 index fund, you're effectively tied to AI paying off in a very big way. That may happen, or it may not.

In a market shaped so heavily by flows, narratives and concentration, understanding your real exposures, and ensuring you're genuinely diversified is simply a sensible step toward building a more resilient portfolio.

Disclosure: The author and accounts he manages at White Falcon own shares in Amazon.com, one of the Magnificent Seven companies discussed in this article.

Balkar Sivia is the founder and portfolio manager of White Falcon Capital Management Ltd. (www.whitefalconcap.com)

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