

# WHITE FALCON

## CAPITAL MANAGEMENT LTD.

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April 20, 2026

**RE: Q1 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 March 31, 2026 is as follows:

	<b>Q1 2026</b>	<b>2025</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021*</b>
<b>White Falcon (net of fees)</b>	<b>-6.1%</b>	<b>28.4%</b>	<b>14.4%</b>	<b>36.0%</b>	<b>-9.3%</b>	<b>-1.5%</b>
S&P 500 TR (CAD)	-3.1%	12.2%	35.2%	23.2%	-12.6%	3.3%
MSCI AC TR (CAD)	-0.6%	15.9%	26.3%	18.5%	-11.9%	1.5%
S&P TSX TR	4.0%	32.0%	21.7%	11.8%	-5.8%	-0.6%

\*Performance is from Nov 8 - Dec 31, 2021

This was a tough and volatile quarter. While the headline numbers suggest a mild pullback, the picture beneath the surface was much harsher. Software and services led sector level declines. Our exposure in these groups was hit by broad multiple contraction as markets priced AI related risks. In addition, our holdings in Ag Growth (AFN) and Ivanhoe Mines (IVN) faced company specific setbacks that further contributed to the drawdown. These pressures were partly offset by strong performance from New Flyer Industries (NFI) and our precious metals basket.

Our focus is never on short-term performance. The White Falcon portfolio construction diverges significantly from popular market indexes and our primary benchmark for success is generating positive absolute returns adjusted for risk over a complete market cycle. The volatility during the quarter gave us an opportunity to add positions at more attractive valuations and also improve the overall quality of the businesses we own in the portfolio. As it happens, the market has since mounted a strong V-shaped recovery, and all accounts are now in the positive for the year.

The **software sector** is at an interesting juncture. From here, it is either a fantastic long-term opportunity, or a potential value trap. We think it may be the former and have meaningfully increased our allocation. Below, we describe the framework guiding our investments in software:

At its core, software is simply a business process written into code. The real work begins after the product is built. The software company must convince a customer to trust it with an essential function, after which, the customer implements the system, tailors it to their needs, and trains employees to use it effectively. Software often embeds institutional knowledge and incorporates the workflows, decisions, and nuances that keep the business humming. While product features matter, factors such as compliance, security, product roadmap, and ongoing support play an equally important role in enterprise buying decisions.

*“No one got fired for choosing IBM”*

- Old adage

Enterprise leaders tend to be inherently risk averse. A Chief Technology Officer’s (CTO) mandate is first and foremost to ensure operational continuity. If existing software already works ‘well enough’, the upside of replacing this software is tiny compared to the downside of breaking something mission critical. As AI makes software development faster and cheaper, we expect enterprises to approve the long tail of projects that were historically uneconomic instead of tinkering with existing software.

Due to all these factors, the industry has trended towards ‘winner take most’ structure despite a plethora of competitive products. We see that Salesforce wins in CRM, Intuit in accounting and tax, Oracle and SAP in ERP systems and so on and so forth. We believe ‘more software’ due to vite coding or increasing productivity of developers is not going to change this dynamic.

The real risk in software comes from ‘agents’. Technologists envision a future where agents (instead of employees) will run business processes within an organization. Today, agents are not ready and have problems including hallucinations, compute constraints, memory retention, not to mention their ‘black box’ characteristic which makes troubleshooting impossible. However, we have to assume these agents will improve over time, as most technologies do.

In one scenario, agents continue to improve but still require human oversight and existing software vendors become even more embedded with their customers. Either these vendors provide agents that help users work more efficiently inside the software, or enterprises build their own agents that interact with the software directly. In both cases, software becomes the orchestration layer for a growing volume of automated work, effectively expanding the market for incumbent vendors.

In a second scenario, agents become fully autonomous and can execute complex workflows without human intervention. This shift could disrupt many software vendors, as the value moves from software platforms to the agents themselves. At that point, the challenge will go well beyond software. Society would have to deal with mass unemployment and its consequences!

White Falcon's strategy is to invest in the most essential software companies that possess more than one source of competitive advantage or moat. This could be through network effects, data, or ecosystem. In addition, we are looking for management teams that are ahead of the curve and incorporating AI into their businesses. Let me give you two examples from the portfolio:

## **Oracle Corporation**

Oracle is reinventing itself from a traditional software company into a vertically integrated enterprise cloud provider, controlling the entire stack from infrastructure to database to enterprise applications. At its core, with its database and applications, Oracle is the 'system of record' which executives rely on as the 'single source of truth' within an enterprise. Much of the world's government, financial, healthcare, and retail data runs on Oracle databases, making the platform deeply mission critical and exceptionally sticky. Even in a world where agents autonomously execute business processes, enterprises will always need a 'single source of truth' to reconcile transactions, diagnose failures, and audit agent driven decisions.

Today, Oracle is leveraging this foundation to transform into a specialized cloud and AI business. Their strategy is to use their 'data moat' to pull AI workloads onto their infrastructure business (OCI). Because so much of the world's mission critical information already lives in Oracle databases, the company is using that position to attract AI training and inference workloads onto OCI. It is now the fourth largest hyperscaler but rather than compete head on with AWS, Azure, or Google, Oracle is partnering with them and giving enterprises multicloud flexibility. Interestingly, Oracle's late arrival to the cloud has actually worked in its favor as it could incorporate the industry's best architectural practices for its specific workloads.

Even though this strategic pivot is logical, the market remains skeptical because cloud and AI infrastructure require enormous amounts of upfront capital. Early results are encouraging. Oracle is already generating solid cloud margins at its current scale, growing OCI consumption, and accelerating both its database and enterprise application businesses. Oracle is also being creative and securing billions in upfront payments from customers who essentially pay for their own hardware in exchange for guaranteed access to 'compute'. We believe that the debt/EBITDA ratios for Oracle will be manageable as they build out this infrastructure and consolidated ROIC's will be more than sufficient.

*"AI is a five-layer cake... spanning energy, chips and computing infrastructure, cloud data centers, AI models and, ultimately, the application layer."*

- Jensen Huang, CEO Nvidia

With OCI, the database, and its applications portfolio, Oracle now participates in three of the five layers of the AI stack. We established our position recently at 20x 2026E EPS, which we view as attractive given the company's quality and the potential upside. This is especially true when considering that its Remaining Performance Obligations (RPO) - contracted but not yet delivered revenue - point to accelerating growth in both revenue and earnings going forward.

## Unity Software

Unity Software runs two tightly linked businesses: Create Solutions, its real-time 3D engine used to build games and interactive experiences where it has a leading share in mobile game creation; and Grow Solutions, its advertising and monetization network that helps game developers acquire users and optimize revenue. This gives Unity a dual revenue model where it earns subscriptions and usage fees from creators and then derives performance based advertising revenue from live games.

Unity sold off aggressively when Google unveiled Project Genie, an AI-powered tool for generating virtual worlds. We see this as a net positive for Unity. AI accelerates game creation which increases the volume of content that ultimately needs Unity's engine. The core functions of a real-time engine - physics, interaction, performance, and playability - that actually make a game playable remain irreplaceable and form the core of Unity's moat.

Importantly, once the game is developed, it also has to be marketed in order to generate revenue. Here, Unity's Grow division is incorporating AI through a product called Vector, which is improving targeting, bidding, and monetization for developers. Unity's largest competitor in this business, AppLovin, has successfully incorporated AI into their business and is growing at a rapid pace while making supernormal margins (>80% EBITDA margins). While Unity is behind, we believe the current management team is taking the right steps to position the company as a credible competitor to AppLovin. Recent results have been encouraging.

Unity has been a turnaround play with multiple management changes, write-offs, delayed product launches, and high stock based compensation (SBC) expenses. We think each of these metrics is improving for the better and the business, with very high incremental margins as Vector scales, has the potential to do close to \$1 billion in adj. EBITDA in two years. At our cost base this translates to a valuation of less than 4x EV/Revenue and 9x EV/adj. EBITDA.

A big problem with software was high valuations and we believe the software sector has finally reached levels where one can underwrite attractive IRRs. In addition to Unity and Oracle, we have initiated several smaller positions across the sector. These are not generic software businesses; each has additional, durable sources of moat that we believe make them far more resilient and difficult to disrupt.

*"If we went into some very major war, the value of money would go down. You're going to be a lot better off owning productive assets than pieces of paper (or cash)"*

- Warren Buffett

The other major event during this quarter was the **Iran war**. Our base case during any conflict is not to dramatically change portfolio exposure (although some exposure to oil would have been nice!). This is based on historical data showing that wars don't change the market's trajectory; they are, in fact, slightly stimulative and therefore bullish for the markets. Even in this case, the war would not have mattered as much except that it affects energy. If oil is below \$85 per barrel

the market will not care about the war but prices above become a problem. High oil prices pull capital from other consumption and, in a worse case scenario, can cause a recession. Like the tariff tantrum last year, President Trump has already reversed his position on the war and it is (hopefully) going through some last stages of negotiations. However, the war is already disrupting supply chains, and we remain vigilant for signs of supply driven inflation. If inflation resurfaces and interest rates move higher as a result, then that would be a materially negative development for equity markets.

In any drawdown, our approach is to use volatility to improve the portfolio's quality and valuation. We start by putting any available cash to work. We then reduce or eliminate smaller, lower conviction holdings and shift that capital into our highest quality ideas. If the market is still declining, we take profits in positions that are near intrinsic value and reallocate those proceeds into portfolio positions that have sold off the most. We have done exactly this during this downturn and remain optimistic on the future of the portfolio.

The **top 5 positions** in the portfolio are Precious Metals royalty companies, NFI, Nu Holdings, Unity Software and Amazon. Coming into the year, the market was positioned for strong earnings growth, fiscal stimulus from President Trump's big beautiful bill and the ongoing AI infrastructure buildout, as well as monetary support from the Federal Reserve through the end of Quantitative Tightening (QT) and the possibility of two rate cuts. However, this bullish setup was widely understood, and both positioning and sentiment had already moved to reflect that consensus. With the outbreak of the Iran war, many market participants suddenly found themselves offside, and this dislocation may ultimately provide the fuel for the market to continue advancing.

We look forward to hearing from our portfolio and watchlist companies this earnings season, particularly to understand how management are thinking about inflation and deploying AI within their organizations

Since the inception of White Falcon, we have included a detailed investment write up on one portfolio company with each letter. We are discontinuing this practice and will instead provide more context on our holdings directly within the letter. If partners or prospective partners would like more information on any business in the portfolio, I'm happy to share the relevant report.

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.

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### 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>

416-770-6131

[bsivia@whitefalconcap.com](mailto:bsivia@whitefalconcap.com)

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