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Letter to investors, Q2 2025

Performance

As reported by our fund administrator, the Master Account, in which I am personally invested alongside SMA clients, returned 12.4% net in Q2 2025, compared to 10.9% for the S&P 500. As of Q2 2025, the top ten positions (excluding cash/treasuries) comprised approximately 65% of the portfolio, and the portfolio held approximately 17% in cash and/or short-term treasuries.

	QTD	YTD	1-year	3-years	5-years	Inception
ACML	12.4%	8.0%	20.6%	16.4%	9.1%	8.0%
S&P500 TR	10.9%	6.2%	15.2%	19.7%	16.6%	16.9%

ACML performance is net of fees and standard costs.

Tariff news and shifting rate expectations kept markets choppy in Q2. Even so, our concentrated portfolio of durable, cash generative businesses kept compounding intrinsic value beneath the day-to-day noise. During the quarter I trimmed positions that outran fundamentals, exited those where the thesis no longer held, and added to high conviction names after they pulled back. We also hold a sizeable cash and equivalents balance. I have been spending time studying several strong businesses which remain on the watch list, but their valuations still look full. I'll put cash to work decisively once I find high conviction opportunities at attractive prices.

Thank you for your trust. A meaningful portion of my own net worth sits alongside yours, and I remain focused on the progress we can make through the rest of 2025.

Portfolio – top and bottom performers¹

Top Performers	Contribution	Bottom Performers	Contribution
Fairfax Financial Holdings Ltd	2.61%	Cogent Communications Inc.	-0.68%
Brookfield Corp.	1.53%	Carmax Inc.	-0.37%
KKR & Co Inc	1.42%	Oaktree Specialty Lending	-0.27%
Kingsway Financial Services	1.26%	SPX options	-0.26%
Amazon.com Inc	1.19%	FILA SPA	-0.09%

As calculated by our fund administrator on the Master Account.

¹ There is no assurance that any of the securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable. See "Disclaimers" at the end for more details.

Fairfax Financial Holdings Ltd

Fairfax's progress over the last three years has been a textbook exercise in compounding. Hard-market pricing from 2022 to 2024 enabled the group to expand net written premiums at a double-digit clip, increasing float to \$33 billion, up roughly 12% per year since 2020. With that larger float invested in longer-duration bonds, interest and dividend income have climbed from \$0.6 billion in 2021 to about \$2.5 billion last year. Adding a steady \$1bn+ of associate earnings and normalized underwriting profit, Fairfax is positioned to earn more than \$165 per share in 2025, over triple the approximately \$52 per-share run rate we underwrote in 2019. These four pillars, disciplined underwriting, growing float, higher fixed-income yields, and associate contributions, have driven the company's outperformance since 2022.

The share price has adjusted accordingly: Fairfax now trades at around 1.7x stated book value, or 1.5x forward, rewarding us with both earnings growth and multiple expansion. The insurance hard market may be coming to an end, and even if premium growth slows to the 6% base-case forecast and the combined ratio drifts toward the high 90s, management still expects more than \$1.5 billion in underwriting profit, in addition to the recurring income streams noted above. A substantial cash cushion and excess capital across the underwriting subsidiaries provide Fairfax with flexibility to continue repurchasing shares or reinvest opportunistically. While we should not expect the same pace of multiple expansion from here, the company's scalable earnings engine and conservative balance sheet leave ample room for attractive, though more measured, long-term returns.

Brookfield Corp.

The Brookfield machine kept humming in the quarter. Distributable earnings climbed 27 % to \$1.55bn. Fee related earnings hit a record \$698m at a 57 % margin, while fee bearing capital reached \$549bn. Management closed two new \$16bn flagship funds and raised roughly \$25bn of total commitments, further enlarging the base of steady, compounding fees that do not depend on exit markets. Brookfield also agreed to buy a majority stake in Angel Oak, an \$18bn mortgage credit platform that will seed a new lending strategy. Insurance and operating platforms continue to extend Brookfield's runway. Insurance generated \$430m of earnings on \$133bn of assets, backed by \$4bn of new annuity sales and a 5.7 % portfolio yield that sits 180 bp above the cost of funds.

Looking beyond the quarter, Bruce Flatt recently re-emphasized the three structural tailwinds Brookfield is leaning into, digitization, decarbonization, and deglobalization. Many of the investable assets tied to these themes did not exist at scale two decades ago, yet they now represent expanding opportunity sets that play directly to Brookfield's strengths. Critics often seize on the firm's complexity, a trait that can attract the occasional short-seller attack, but Mr. Flatt maintains the same architecture lets management shift capital among listed partnerships, private funds, and the insurance balance sheet wherever risk-adjusted returns look best and wherever the market is willing to ascribe value (such as with high multiples for asset-light managers). That flexibility has helped Brookfield compound capital at roughly 19 % annually over the past 30 years.

KKR & Co Inc

KKR's share price fell earlier this year after tariff headlines and worries about a tougher market for private equity realizations, the exits that turn paper gains into cash and carried interest, before rebounding partly in Q2. While those concerns are real, the firm's strength is its resilient cash-flow engine. Most earnings come from what the company recently started to call "Total Operating Earnings," which are generally steadier than investment income and generate \$4.5bn a year.

Three elements drive this figure. First, steady management fees which are charged on committed or invested capital, not quarterly marks. Fee paying AUM grew 12 % year over year to \$526bn, lifting fee related earnings 23 % to \$823m at a 69 % margin. Second, insurance operating earnings: Global Atlantic manages nearly \$200bn and earned \$259m pre tax in the quarter, nearly a 20 % return on equity. Every new annuity brings both an investment-management fee and a balance-sheet spread, creating a stable, self-funded growth flywheel. Third, strategic holdings, core companies KKR plans to own long term, now contribute \$90m, with a line of sight to \$300m and eventually \$1bn. As regards investment income, \$116bn of uncalled commitments, \$245bn of carry-eligible assets already marked above cost, and an

\$800m monetization pipeline give visibility on future fees and carry, supporting KKR's ability to compound regardless of where the fundraising cycle sits in the near term.

Kingsway Financial Services

Kingsway's shares spent most of the past year moving sideways, which is unsurprising for a roughly \$400 million market cap company that receives little sell-side coverage and whose value depends more on future acquisition-driven growth than on reported earnings today. Execution across the portfolio has been uneven. Acquisitions such as Ravix and SPI have performed well, while CSuite has proven difficult, and Secure Nursing has faced soft demand for travel nurses and wage pressure, resulting in revenue remaining flat and margins under strain as the industry normalizes following the pandemic. At the May Investor Day, management reaffirmed its goal of two to three acquisitions a year at 5-7x EBITDA on companies earning \$1.5 - \$3 million and walked through an operating playbook for their most recent acquisition Buds Plumbing that showed how pricing, service mix expansion, and bolt-on M&A can double profits within three years. Two weeks later, Kingsway closed a \$15.7 million PIPE at \$11.75 per share, lifting its acquisition cadence target to three to five deals per year. The share price has run up on that news and could be volatile until the playbook is proven; but if management executes on a handful of high quality acquisitions a year and brings solid operational discipline to formerly lifestyle family businesses, the earnings base could expand meaningfully over the next few years.

Amazon.com Inc

Amazon's structural edge keeps widening. Its high-return, capital-light businesses compound without depending on the retail cycle. AWS is growing at mid-teens rates with nearly 40% segment margins and now contributes more than half of the group's operating income. Advertising, an asset-light adjunct to the marketplace, is expanding even faster at 19% and directly impacts the bottom line. Meanwhile, the core retail business continues to benefit from the regionalized fulfillment network built over the last two years. North American retail margins would have reached roughly 7% absent tariff-related charges.

Amazon generated approximately \$25 billion of trailing free cash flow, more than enough to cover stepped-up investments in artificial intelligence and robotics, while also funding Project Kuiper, whose first production satellites launched in April and can extend AWS into connectivity white spots around the world. I view Amazon as a self-funded, multi-legged compounding machine that trades at what appears to be a mid-teen multiple of normalized free cash flow.

Cogent Communications Inc.

Cogent's share price was impacted following a couple of quarters of missing earnings, as investors lost patience with the length of time the Sprint wireline integration was taking. Although management has already captured the targeted \$220m of cost savings, the integration work is still consuming time and operating expenses, and revenue has yet to inflect, leaving headline results soft and sentiment poor.

Behind the noise, the wavelength build-out is gathering momentum. The funnel now sits at 3,433 orders. Importantly, Cogent can activate new wavelength circuits in as little as two weeks, versus the three-to-nine-month lead times typical of Lumen, Zayo, and others, a speed advantage that should translate into share gains as the backlog converts. Cogent aims to ramp up to a sustained pace of approximately 500 installations per month by year-end. Wavelength ARPU is roughly \$1,930, with incremental EBITDA margins of over 90%, thanks to minimal variable costs, implying a potential run-rate incremental cash flow of over \$100 million within a year. If those installations and associated cash flow fail to materialize over the next quarter or two, I will exit the position. However, for now, the market's focus on near-term integration headaches leaves ample upside once wave scale.

CarMax Inc.

I fully exited CarMax after several years in which the share price stagnated while peers such as Carvana captured most of the market's enthusiasm. CarMax long occupied a place in the portfolio as the scale player in US used vehicle retail, with proprietary auction data, nationwide reconditioning capacity, and a finance arm that historically captured a healthy share of the value chain.

CarMax still needs to demonstrate that its significant investment in technology, reconditioning capacity, and finance operations can translate into faster unit growth and higher margins. The company still faces several other challenges, including elevated rates that pressure both consumer demand and the contribution from CarMax Auto Finance, high inventory carrying costs, and reconditioning expenses that weigh on gross profit. Additionally, new entrants continue to nibble at the share. Meanwhile, wholesale volumes remain depressed due to the tight supply of cars, and retail turnover remains muted.

Oaktree Specialty Lending

I sold OCSL after management had to admit three new non-accruals, including a 50% write-down on investment in Pluralsight alongside smaller hits at AT Holdings and Dialyze. Those impairments reduced the net asset value and demonstrated that an almost 80% first-lien book can still experience credit pressure, leaving earnings flat and my expected risk-adjusted return below the hurdle I set for core holdings. Management then waived \$3.2 million of incentive fees, boosting net investment income by a penny per share to maintain the dividend intact. I appreciate that shareholder-minded step, but it also points to a thinner earnings cushion if base rates drift lower.

SPX put options

I maintained a light S&P 500 put overlay throughout both Q1 and Q2. The hedge gave back some of its earlier gains as the index rallied in recent months. Yet, it ended modestly in the black year to date, having provided the portfolio with downside protection during the spring volatility.

FILA SPA

I changed my mind and closed the position in FILA, having opened a small starter position in the first quarter. The Italian company owns Dixon Ticonderoga pencils, which hold a 50 % share in the United States, and sells art papers and other school supplies. At entry, the market valued FILA's 31% stake in its fast-growing Indian subsidiary DOMS at more than the entire group, leaving the core business priced at only five to six times next year's free cash flow; a classic hidden-value setup. I closed the position in April for a modest loss after renewed tariff rhetoric and a sharp sell-off in European small-cap exporters highlighted the sensitivity of FILA's business to policy risk. FILA remains a relatively small, lower-growth industrial. In uncertain times, I prefer to anchor the portfolio in companies with long-term compounding potential rather than relying on a one-time re-rating of hidden value.

Trades

- Added to Cogent and KKR when the market offered prices below my estimate of intrinsic value.
- Closed the positions in OCSL, CarMax, and FILA for reasons outlined in their respective sections. Also exited DSGR as I became less comfortable with the thesis following repeated execution slips.
- Trimmed TerraVest and the gold ETF after sizable gains, and reduced Exor and Melrose when they fell short of my near-term expectations (I still like their long-run prospects, just at a smaller weight).
- Swapped the CLIP Treasury ETF for SGOV to access deeper liquidity.
- Harvested a ~40 % gain on June IBIT calls and redeployed the proceeds into a modest September vertical spread, extending the timetable while capping premium decay.
- Adjusted Burford: I trimmed the position early in the quarter, then bought some back when the shares sold off on worries that a proposed US excise tax would hit litigation-finance income. Even if the tax had passed, I believed the decline already reflected the impact, assuming the YPF award was still collected. The shares have since recovered after the tax language was removed from the final bill and on encouraging progress in the Argentina and Turkey price-fixing cases.

Individual clients' separate accounts may show slightly different results; please refer to your quarterly reports for those details.

Samer Hakoura
Alphyn Capital Management, LLC
July 2025

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