Turtle Creek

2018 Letter to Unitholders

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Fellow Investors,

This year marks our 20th anniversary and later on in this letter we reflect on the changes at Turtle Creek over our first two decades. In last year's letter, we observed how eventful 2017 had been with events such as capping the Founders Fund[1] and launching our U.S. fund. In contrast, this year was a more typical one for us in terms of the cadence of company changes and portfolio activity. One development of note was an outsized increase in Cash Flow Value[2] of the Founders Fund, which we describe in the next section. In this year's letter, in addition to reflecting on our first 20 years, we describe our short and long term performance, developments in the portfolios and our approach to engaging with our companies. As well, for the first time in a number of years we provide a case study, profiling one of our long time holdings.

For the year, Turtle Creek Equity Fund declined 8.2%[3], compared to a decline of 8.9% for the S&P/TSX Composite and a decline of 3.3% for the S&P MidCap 400 (in Canadian dollars)[4]. However, rather than focusing on a calendar year, we always stress the longer term. Much more important than one-year returns are five-year, ten-year and twenty-year compound annual returns[5] which are 6.9%, 19.7% and 21.5%, respectively. To put our historical performance in perhaps more understandable terms, $1 invested at the inception of Turtle Creek is now worth over $52.

For the year, Turtle Creek United States Equity Fund ("TCUS") declined 0.3%[6] (in Canadian dollars) while the S&P MidCap 400 index declined 3.3%, and Turtle Creek Canadian Equity Fund declined 12.4%[7] while the S&P/TSX Composite declined 8.9%.

The end of the year was tough for the markets, particularly in the United States. As a result, the mid-cap segment of the U.S. market was in bear market territory at the end of the year, having dropped more than 20% from its high in late August to its low on December 26. The Canadian market was not technically in a bear market (although it was down nearly 17% from its high in mid-July to its low on December 24), but that's cold comfort for Canadian investors – it simply didn't rise as much before it started its decline in the second half of the year. In fact, for the full year, the S&P/TSX index fared worse than the S&P MidCap 400 index.

1. References to the Founders Fund means Turtle Creek Investment Fund from November 1, 1998 to November 1, 2008 and thereafter means Turtle Creek Equity Fund – see endnote disclosures.
2. See endnote disclosures.
3. Based on the change in net asset value of the Class I, Series 1.0 Units.
4. The S&P/TSX Composite index and the S&P MidCap 400 are both total return indices. See endnote disclosures.
5. See endnote disclosures.
6. Based on the change in net asset value of the fund's Class I, Series 1.0 Units.
7. Based on the change in net asset value of the fund's Class I, Series 1.0 Units.

Turtle Creek

2018 Letter to Unitholders

How We Measure Ourselves in the Short Term

With regards to investment performance, we are no different than you: we want to know how we have performed as investment managers this year. However, we think using the change in unit price over just 12 months is a terrible way to make that assessment – evaluating a long term investment strategy using short term price movements makes no sense.

Since we founded Turtle Creek, we have used the change in Cash Flow Value (which we previously called Intrinsic Value) as the appropriate metric for evaluating our shorter term results. For each company, Cash Flow Value is the present value of the future net free cash flows we expect our companies to generate, discounted back to the present at consistent discount rates.

The table below shows the change in the Cash Flow Value for the Founders Fund over the past five years. In our view, when evaluating investment success, five years is still relatively short term and only beyond such length of time does one move into the long term.

The annual increase in Cash Flow Value has averaged 12.5% over the past five years.

Year end	Change in Founders Fund Cash Flow Value
2014	+17%
2015	+20%
2016	+2%
2017	+5%
2018	+20%

The annual increase in Cash Flow Value has averaged 12.5% over the past five years. You will note that the increases in 2016 and 2017 were more muted. As we explained in last year's letter, we believe the quality of the portfolio markedly improved over these two years, which means that the risk-adjusted return profile of the portfolio improved. We haven't tried to capture this lower risk/higher quality by lowering the discount rate and, as a consequence, we experienced a one-time 'headwind' with respect to change in Cash Flow Value. We know financial theory would argue for using lower discount rates, but we have never altered our discount rate, despite significantly different interest rates and stock market valuations in different periods over the past 20 years. For us, the absolute valuations are not overly relevant – it is the relative valuations among our companies that matter more to us. And, to be clear, we do have a means of weighting toward lower risk/higher quality cash flows elsewhere in our portfolio construction process – it just isn't done through lowering the discount rate and so doesn't show up in the portfolio's Cash Flow Value. With that one time headwind behind us, it's nice to see such a strong increase of 20% in 2018.

Our U.S. fund experienced an unusually large increase in Cash Flow Value of 45% in 2018.

Our U.S. fund, TCUS, experienced an unusually large increase in Cash Flow Value of 45% in 2018. This is the benefit of having greatly increased the number of U.S. companies that we are closely following. Recall that we launched TCUS in April of 2017 when we felt we could, for the first time, construct a quality portfolio of approximately 25 U.S. companies. Since then, we have continued our

search for well-run U.S. companies and have identified some that we think are also compelling from a valuation standpoint. The addition of these companies and the removal of ones that were trading closer to our estimates of their intrinsic value was the reason for such a large intrinsic increase in 2018. While we will strive to continue to grow Cash Flow Value, we don't expect another 45% annual increase. With the strong increase in intrinsic value of TCUS, the valuation attractiveness, or 'discount to intrinsic', of our U.S. fund is now just as significant as our Canadian fund.

The Cash Flow Value increase in our Canadian Fund, TCCF, was 11% in 2018. One of our Canadian companies, Avigilon Corporation, was taken over early in the year. We note this because it is the first time in a few years that one of our companies has been acquired, although over the life of Turtle Creek portfolio company acquisitions have averaged one per year. It is also interesting to note that the acquisition price was $27.00 per share, all cash, which compares with our Cash Flow Value at the time of $26.60. Over the years, the prices at which our companies have been acquired have typically been either at, or above, our Cash Flow Value estimates. This is not surprising. While our Cash Flow Value calculation does not consider the synergies available to a particular buyer, it does reflect an estimate of the stand-alone cash flows that a prospective owner would be acquiring – in that way, it should be in the ballpark of a takeover price (or what some people call the private company value).

One of our Canadian companies, Avigilon Corporation, was taken over early in the year.

Since our Cash Flow Value is roughly the 'en bloc' value of a company, we don't expect the company share price to trade at or above this level, although this does happen from time to time. Generally, most companies' share prices trade below what a control buyer would pay for the company – often they trade well below this level. Our thinking is quite simple: the further below Cash Flow Value a company's shares trade, the stronger the pull back in the direction of Cash Flow Value. Think of it as if there were an elastic band with one end of the band attached to Cash Flow Value, which doesn't move and the other end of the band attached to the share price, which fluctuates quite a bit. Since the share price is tethered to Cash Flow Value the further it moves away from Value (either above or below) the stronger the pull back towards Value.

The same logic applies to our overall portfolios – the greater the difference there is between the Cash Flow Value of the portfolio and the unit price, the stronger the pull towards Cash Flow Value. At the end of 2018 the unit prices of our funds were all more than 50% below their respective portfolio Cash Flow Values.

At year-end all our funds were at a greater than 50% discount to their Cash Flow Values.

How We Measure Ourselves in the Long Term

It is all well and good to talk about growing Cash Flow Value, but if it doesn't show up sooner or later in the unit price then the talk is going to start to sound pretty hollow. In the long run, the only proper way to measure an investment manager is actual net investment returns to investors. One can debate when the 'long term' begins, but we think beyond five years is a decent starting point.

Shown below are our five, ten and twenty-year compound annual returns, compared with the market.

	5 Year	10 Year	20 Year
Founders Fund (C$)*	6.9%	19.7%	21.5%
S&P/TSX Composite index	4.1%	7.9%	6.6%

*See endnote disclosures

Portfolio Changes

In terms of developments in the portfolios, the pace of additions and removals remained somewhat higher than historical levels. During the year, we added six companies to TCEF and removed five, to end the year with 27 holdings. Up until a couple of years ago, our additions and removals averaged four per year. As we continue to increase the number of companies we know well, it is more than likely the pace of changing companies will remain at a higher level. In terms of geography, the split between Canadian and U.S. company exposure was relatively stable, with U.S. content rising slightly from 40% at the first of the year to 44% at year-end. Not surprisingly, the holdings change was higher in our U.S. fund than in our Canadian fund: TCUS saw six additions and six removals whereas TCCF saw two additions and two removals. Both funds finished the year with 25 holdings.

Adding back previously removed holdings will be more frequent.

The increased pace of changing out companies won't necessarily come from adding brand new names but from adding back a holding that we had removed for reasons of relative high valuation. A good example of this is Tractor Supply Company. We have now owned Tractor Supply for four years but have twice taken the holding to zero in the Founders Fund. The first time we removed it was in mid 2016 but then later in the year we added the company back as a result of a decline in its share price. And then, this year we took the holding to zero again, based purely on relative valuation. We really like the company and would not hesitate to add it back if the share price were to decline sufficiently once more.

Shareholder Engagement

In comparison to most other public company shareholders, we are 'actively engaged'.

We introduced a new term this year, Shareholder Engagement, to describe an element of our investment approach that we have underemphasized over the years. We have always described Turtle Creek as a 'passive' investor. In doing so we are contrasting Turtle Creek's approach with how 'active' we had been in our previous careers. Prior to Turtle Creek, the three founding partners were private equity investors, running the private equity arm of a major Canadian financial institution. In this role, we were highly active investors that took control positions in companies and sat on their boards. We were intimately involved in governance and worked with our management teams on a broad range of matters, particularly overall strategy and capital allocation (including acquisitions).

As a result, when we describe Turtle Creek's investment activity as passive, we are contrasting our involvement in the businesses we own with how active we were before Turtle Creek. However, when we compare Turtle Creek with most other public company shareholders, then it is better to describe us

as actively engaged. To be clear, we fall well short of being in the 'activist' camp. We never go looking for companies that require change with a view to agitating for that change. Our preference is to invest in well managed and well governed companies. After all, we are investors, not operators. If we disagree with a company's strategy, then we simply express that view by not being an owner. But not being an 'activist' doesn't mean that we are not often meaningfully engaged with our companies. Some examples of our Shareholder Engagement this year include:

- Engaging with several of our companies on whether to return capital to shareholders and, if so, how much. In particular, debating the merits of different approaches to share repurchases and contrasting this with special dividends.
- Reviewing historical performance of acquisitions and engaging with management on the prospect for future acquisitions and how much value they are likely to create.
- Meeting with a board to share our philosophy and perspectives on the proper elements and design for executive compensation.
- Discussing with a company its existing accounting policies, which might be creating misalignment with respect to its management compensation program.

All of these interactions are conducted with a positive and cooperative mindset. What we don't do is tell management how we think they should run their business. Our experience has been, if you are an interested and engaged owner asking lots of questions while trying to better understand each business, sometimes the probing and questioning can prod management and boards to tweak their thinking and approach; and once in a while me might have an observation that actually has a more profound impact on how the company acts. But the larger benefit of our Shareholder Engagement is that over time, through this deep engagement, we develop a better understanding of each of our companies.

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A Case Study: TFI International

It has been a number of years since we have included a 'case study' – a recap of one of our investments – in our annual letter. A case study can help to explain our investment process and its various nuances. This year we thought we would review our investment in TFI International Inc. ("TFI") (which changed its corporate name from TransForce Inc. two years ago).

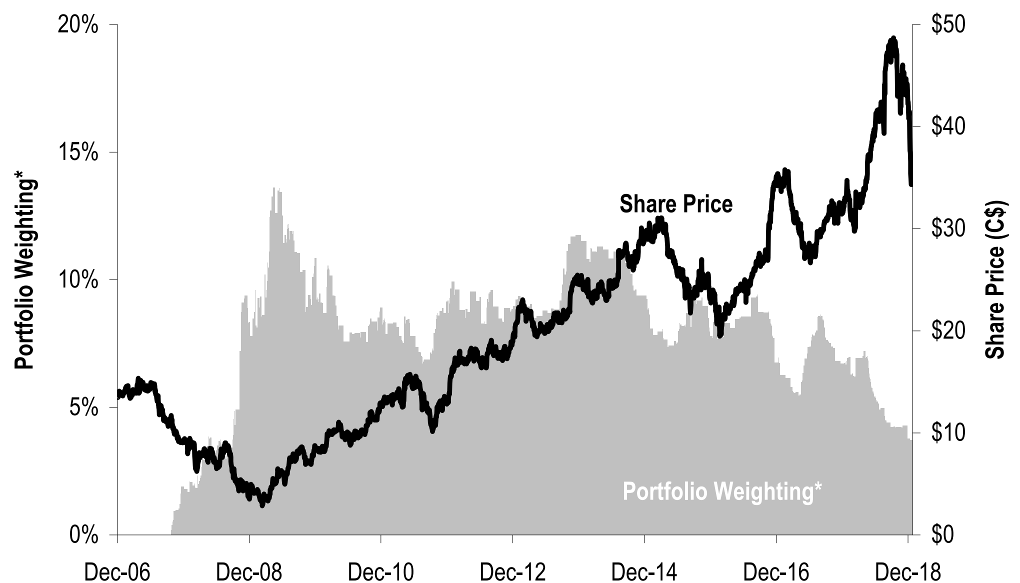
We first met the company in late 2006. In our initial meeting with the CEO we were impressed. At that point, he had been running the business for ten years and one could see what an excellent job he had done, first in 'turning around' the company and then in growing it, largely through acquisitions. At the time, it was already the largest trucking company in Canada. Our initial impression was that it passed the first step in our four-step investment process – it was a 'highly intelligent' company that was both operationally excellent and shareholder focused. As we did more work, everything confirmed our initial impression and we continue to hold the company in high regard today, 12 years on.

After that first meeting in 2006, we set about building a detailed financial model of the company. As is always the case, the model had a great deal of historical financial information which formed a base

from which we were able to develop our best estimate of the company's future results. But we didn't create this long term view on our own, in a vacuum. Throughout 2007, we had numerous follow up meetings and an even greater number of phone calls with the company in order to form an understanding of the business and the industry environment. In particular, we were trying to understand their prospects for making further accretive acquisitions. Indeed, the company has continued to make acquisitions and, collectively, has bought well over 100 companies during the past 20 years.

In developing our long term view on TFI we tried in particular to understand its prospects for making further accretive acquisitions.

The graph below shows TFI's share price and the corresponding portfolio weighting in the Founders Fund portfolio over the years. The share price is represented by the black line on the graph with prices on the right Y-axis. The portfolio weighting is represented by the grey shaded area with the percentage weighting in the portfolio on shown on the left Y-axis.



Source: Bloomberg, TCAM, as at December 31, 2018.
* Turtle Creek's portfolio weighting for TFI from October 19, 2007 until November 1, 2008 reflects the weighting in Turtle Creek Investment Fund, and thereafter, the weighting in Turtle Creek Equity Fund.

We first bought shares in the company in late 2007 at around $11. By that time, about a year after our first meeting, we felt that we had a reasonable, quality view on the company. We had spent a lot of time reading and discussing all aspects of the company, had numerous meetings with management and had built a substantive financial model that provided a balanced forecast of the company's prospects. In comparing our view of the company's prospects with the share price of $11, we determined that TFI should be added to the portfolio. However, it wasn't particularly cheap at that price and so the initial sizing of the position was only about 2%. As an aside, we tend to be cautious with 'new' names in comparison with companies that we have followed for years so, all other things

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being equal, we haircut holdings for companies we haven't known as long. This haircut dissipates over time as we gain more history with the company. On the graph you can see this effect through to the middle of 2008 when the position grew to about a 3% weighting without much of a change in the share price.

As the Credit Crisis unfolded in the second half of 2008, TFI's share price declined to the $4 range. We bought a lot of shares at lower and lower prices such that the weighting of the position in the portfolio increased from 3% to about 8% by year-end. Keep in mind what 'a lot' means in this case. In order to more than double the weighting in the portfolio when the share price declined by more than 50%, we more than quadrupled the number of shares we owned.

As the Credit Crisis unfolded in the second half of 2008 we bought a lot of shares at lower prices such that the weighting of TFI in the portfolio increased from 3% to about 8%.

In early 2009, the share price continued to drift lower, briefly trading below $3. We continued adding to the position as it declined, taking TFI's weighting in the portfolio to just under 10%. In April of 2009, even as TFI's share price rose back to the $4 range, we continued to buy shares such that the weighting was over 12%. This was in large part due to TFI's relative attractiveness. While TFI increased in price, other portfolio holdings also increased in price, sometimes dramatically, such that on a relative basis, TFI became more attractive. This points out one of the limitations of our case study charts: it's not possible to show what is happening to the relative attractiveness of all of the other holdings. Indeed, when you look at the incremental weighting changes to TFI over the years, oftentimes it is caused by changes in the rest of the portfolio.

As the share price of TFI began to rise, we first trimmed the position at prices between $5 and $6. By the end of 2009, the share price had risen to $8.50 and our continued selling at higher prices had reduced the position to a 9% weighting.

Over the next four to five years (2010 through 2014), the share price rose to the mid $20's and, as you can see from the graph, our weighting remained relatively stable – ranging between roughly 7% and 10%. Normally, in the face of a more than doubling in the share price, we would be reducing the weighting, but in this case, we believed the company's value had also increased substantially, primarily through numerous accretive acquisitions. Even in this period of relative weighting stability, there were still times we responded to changing prices. For example, in the tumultuous second half of 2011 (remember the Greek Crisis and the US debt ceiling debacle?), the share price dropped below $10 and we bought back a lot of the stock we had sold at higher prices.

In 2018 the share price rose to as high as $49 and we reduced the position in the face of this strength – the same company at a higher price simply means we do not own as much.

In the middle of 2018, the share price rose to as high as $49 and we reduced the position in the face of this strength. The share price increased in 2018 partly because two U.S. investment banks picked up research coverage on the company, both with strong buy recommendations. This new research coverage has no impact on our view of TFI's value – the same company at a higher share price simply means we don't own as much. At year end, with the share price at about $35, our 4% weighting in TFI is the lowest it has been for ten years.

So, what is the result of all of this? First off, we picked a good company to own. If we had simply bought and held the company from the first day we purchased shares in 2007, our IRR[8] (internal rate of return – roughly the gross annualized investment return) would have been 14% per year. As a

8. See endnote disclosures.

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result of our activity of increasing the weighting when the company was cheaper and reducing the weighting when the company was less cheap, we have earned an IRR of 40%, a substantially better result than a 'buy and hold'. This case study is a good example of steps three and four of our investment process: initial sizing of the position and then continually rebalancing in reaction to changing share prices – a process we refer to as Continuous Portfolio Optimization.

Continuous Portfolio Optimization is not an attempt to increase returns but instead reflects our efforts to reduce risk.

The most important point to stress is that our Continuous Portfolio Optimization is not an attempt to increase returns but instead it reflects our efforts to reduce risk in the portfolio. For example, two years ago, when TFI traded down to $20 per share it was lower risk than in the middle of 2018 when the stock was close to $50 per share. Keep in mind that, even though our view of the value of the company today is much higher than $35, we recognize our valuation is simply an expected value. The world is a complicated, uncertain place and there are many scenarios where our forecast could turn out to have been too high and there are some scenarios where the shares could turn out to be worth less than $35. However, there aren't many scenarios we can think of where the shares aren't worth at least $20 per share. Looking back to 2009 when TFI was more than a 10% weighting, we had trouble coming up with scenarios where the shares weren't worth a lot more than they were trading at. Think of it as our margin of safety: the bigger the gap between our view of value and the current share price, the lower the risk.

Three key elements of our investment approach are:

1. **A holding only becomes big when we think it is cheap.**
2. **We are patient.**
3. **We never try to guess where share prices are going.**

We want to emphasize three key elements of Turtle Creek's approach, which you can see in the case study of TFI:

1. A holding only becomes big when we think it is really cheap. Once in a while, we initially size a new holding as a large weighting, but in the vast majority of cases (as in the case of TFI), a holding starts off as a fairly small position. It is then a decline in share price, without any change to our view of a company's value, which causes us to buy more shares to make it a larger and larger holding. A holding doesn't become big as a result of a rising share price where we just sit and watch it rise. Essentially, we are trying, to the best of our ability, to own the 'right' amount of each of our companies at each and every different share price.

2. We are patient. If the share price doesn't rise enough to cause us to want to sell, we are happy to simply hold it. At the core, our approach is that of a 'buy and hold' unless our view of the company changes or the relative attractiveness of the company changes (for example, the rest of our holdings could become more or less attractive due to changing share prices). The thing is, since prices change often and sometimes by a lot, we similarly rebalance often and sometimes by a lot.

3. We never try to guess where share prices are going next. We assume that the stock market is a 'random walk' in the shorter term. Of course, we recognize there are lots of 'catalysts' that can have an impact on share prices, but we don't spend any of our time trying to predict which factors will drive prices one way or the other. From our perspective, we simply are long term owners of companies, and these companies happen to be publicly traded. All we can do is decide how much of each company we want to own at a variety of prices.

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Reflections on our First 20 years

As we just celebrated Turtle Creek's 20th anniversary, we thought we would reflect on how the firm has evolved over the years. The most obvious change at Turtle Creek is the significant increase in the size of our team, from the three founding partners in 1998 to a firm of 23 today. With the growth in our investor base we have built (and will continue to build) all areas of the firm, from business development and client services to finance, operations and compliance. However, growing the investment side is a particular focus. We will soon have eleven investment team members, which has allowed us to add to the number of companies we know and follow. Today, we own approximately 50 companies across our funds. And there are another 25 companies that we know well and are comfortable owning – they just aren't as attractively valued today as the companies in the portfolios. We will continue to grow the investment team, at a measured pace, in order to increase the number of companies we know and thereby expand the selection set from which we build the portfolios. This, we believe, will increase the quality of the portfolios, reduce risk and enhance investment returns over the long term.

The most obvious change at Turtle Creek is the significant increase in the size of our team, from the three founding partners in 1998 to a firm of 23 today.

One way to gauge how following more companies has improved the portfolio is to look at the absolute cheapness of the smaller holdings in the Founders Fund at different points in time. This is one place where increasing the coverage universe should have a big impact and it surely has. The table below shows the average discount to Cash Flow Value and the average portfolio weighting in the Founders Fund for our three least cheap (most expensive valuation) holdings from five years ago, three years ago and today.

	2013	2015	2018
Average discount (premium) to Cash Flow Value	(5)%	2%	30%
Average portfolio weighting	0.4%	0.7%	1.4%

Five years ago the average discount to intrinsic was actually a premium of 5%. In other words, our three smallest holdings were trading slightly above our Cash Flow Value estimate. Not surprisingly, they were quite small holdings, in aggregate comprising only 1.2% of the portfolio. Three years ago, things were a bit better with our three smallest holdings trading at a slight 2% discount to Cash Flow Value. As a consequence, the portfolio weighting was a bit higher at a total of 2.1% of the portfolio. Today, things are a lot better with our three least expensive holdings trading a full 30% below Cash Flow Value and therefore they have a larger weighting in the portfolio of 4.2%.

While our team has grown, our investment approach has not changed.

While our team has grown, our investment approach has not changed. Focusing on the underlying fundamental value of companies and not letting share price fluctuations impact our thinking, are two of our founding principles. Indeed, 20 years ago we set out our six founding principles and these remain as relevant as ever today (we list our founding principles on our website).

While a larger investment team allows us to cover more companies, there is always a risk that the quality of the analysis deteriorates as the team size increases. For us, the opposite has happened.

We strive toward a collaborative investment analysis (without succumbing to group think) and the partners can confirm that the quality of this analysis, company by company, has improved over time. There are more checks and balances and we hold many more 'beat up' sessions to challenge the assumptions driving our financial models.

Not only is the quality of our analysis better, but we believe the quality of the companies we own is higher.

Not only is the quality of our analysis better, but we believe the quality of the companies we own is higher than ten or twenty years ago. The good news is that we have been able to upgrade portfolio quality without sacrificing on valuations – the attractiveness of our portfolios today, from a valuation perspective, is greater than most past periods.

The first two steps of our investment process of identifying the companies we might wish to own and then doing the fundamental valuation work on those companies, have benefited the most from the larger investment team. We have written previously about our multi-year process of looking for companies in the United States. This has resulted in a growing representation of U.S. companies in the Founders Fund. Indeed, today U.S. companies represent approximately 45% of the portfolio – an all-time high. And it wouldn't surprise us if this percentage increased in the future.

The one big evolution in our thinking over the years is the importance we place on a company's capital efficiency.

Although our fundamental investment approach is unchanged, there has been one big evolution in our thinking over the years: the importance we place on a company's capital efficiency. In the beginning, we took a bit of an agnostic view toward capital efficiency. We were much more focused on operational excellence – if a company chose not to use debt to finance their business and in fact let surplus cash build up on the balance sheet we would be somewhat indifferent so long as we knew the money would not be misspent and would ultimately be returned to the shareholders. But over time, we have developed the view that if a company is inefficient in how they finance their business, perhaps it's not as highly intelligent as we thought. We love companies that explicitly target an optimal capital structure and then strive to maintain that structure over time. By optimal, we mean identifying a level of senior debt that is manageable by the company in pretty much any environment. Too much debt and the company might be forced to sub optimize its business in the event of an economic downturn.

And it's not just the use of senior debt: we like companies that look for creative ways to lower their cost of capital. By way of example, one of our long-time holdings, in addition to utilizing senior debt to finance their business, has also issued convertible debentures to fund their high growth. In the past nine years, they have completed eight issues, essentially forward selling common shares at an average premium of 60% above the then share price, where the interest cost on the debenture was lower than the dividend yield on their common shares in half of the issuances. This uniquely attractive financing structure has resulted in a lower cost of capital for the company, to the benefit of shareholders.

In the prior section, we profiled our share ownership activity with one of our long time holdings – TFI International. TFI's capital efficiency and creativity over the years has been impressive. In 2002, it converted from a corporation into an income fund – a more tax efficient structure in Canada. As a result, TFI gained a competitive advantage in terms of its cost of capital. As well, the company has always maintained a prudent level of senior debt such that they haven't experienced any covenant issues, even during the Credit Crisis. Some years ago, on one of the company's quarterly calls, an analyst commented that some investors felt the debt levels might be too high and asked if the company might consider an equity issuance. The CEO replied something to the effect of: 'I am

comfortable with the senior debt levels of the company. I'm not going to issue 'stupid equity' just because some people would prefer to see us with a lower debt to EBITDA ratio. That makes no sense.' Then, in 2015, TFI sold its waste operations at a full price and early the next year launched a substantial issuer bid to use that capital to repurchase shares at a discounted price. They have continued to buy back shares since then.

A final example to illustrate our attention to capital efficiency is from a newer holding in our portfolio. The company went public in 2011 with a very high debt level of 7x EBITDA. It had been previously owned by a large private equity firm which elected to exit its ownership through an IPO and then subsequent share sales in 2014. We didn't know the company during that period, but we probably wouldn't have been comfortable with such high debt levels. Since the IPO, however, the company, despite making numerous significant acquisitions, has brought its debt level down to 3.5x EBITDA. Management has consistently stated over time that once its debt level was down to 3.5x to 4.0x, they would not let the debt go any lower, because that would result in an 'inefficient capital structure'. In the most recent quarterly results, the company announced its first ever share buyback program with the board authorizing the repurchase of up to $500 million of shares. How much they in fact repurchase will be a function of acquisition opportunities and their internal capital needs, and also, of course, the relative attractiveness of share buybacks compared to these other opportunities. We would like all our companies to think this way and an increasing number of them do. And we have encouraged the ones who don't to think more explicitly about capital efficiency, including when and how they return excess capital to shareholders.

An increasing number of the companies we own are active repurchasers of their shares, especially when they are cheaply priced.

In each of these examples, our long standing investment approach remains the same: focus on understanding the long term prospects of the business. But as a result of our experience over many years, we have come to recognize the importance of efficient capital structures and how that objective can also have a meaningful impact on value. In each of our examples, we have companies with strong balance sheets, which generate more capital than they typically can profitably redeploy in their business *and* that are prepared to repurchase their shares, particularly when the shares are cheap.

An increasing number of the companies we own share these characteristics. In fact, about two-thirds of our portfolios are comprised of companies who are actively buying back shares, some at a meaningful rate. Given the market declines in the fourth quarter, we expect they were especially active and were able to enhance their Cash Flow Value per share through opportunistic share buybacks.

Our Crystal Ball

Alas, we don't have one. At the end of December, we highlighted to our unitholders how bad the fourth quarter was for stocks in general. During the quarter the S&P MidCap 400 index was driven firmly into bear market territory. In January, equity markets saw a nice bounce, but not a complete recovery; the S&P MidCap 400 index was still down 10% from its high at the end of August 2018. The S&P/TSX index has recovered further but still sits about 5% below its August 2018 high.

Is this the end of the correction or just the beginning? We don't know but we do want to conclude with something we have said repeatedly:

> We don't get fussed about month to month price fluctuations – either up or down. We ignore short term market noise – it really doesn't matter. We own portions of companies, which happen to be public, and we simply view short term price fluctuations as an opportunity rather than a problem.

Indeed, over the past few months, we have been able to rebalance the portfolio (around the edges) to the advantage of our investors as markets have fluctuated. Not only have we taken advantage of the equity market volatility, our companies have as well, repurchasing stock at attractive prices and thereby driving their Cash Flow Value per share higher.

We thank you for your continued support.

Your Partners at Turtle Creek

Turtle Creek

2018 Letter to Unitholders

Disclosures

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The Founder's Fund performance, from November 1, 1998 until November 1, 2008, reflects the performance of Turtle Creek Investment Fund (created in September 2000) Class A Series 1 Units and the performance (or NAV) of its predecessor structures (collectively "TCIF"), and Turtle Creek Equity Fund ("TCEF" or the "Fund") Class I Series 1.0 Units thereafter. Since TCEF and TCIF maintain almost identical portfolios (with the exception of the TCIF's private company investments), historical performance for TCIF has been combined with that of TCEF. There were no private investments in TCIF before 2003 and, in aggregate, the private investments had a negligible impact on TCIF's returns to November 1, 2008. TCIF's fee and carried interest allocation structure did not apply prior to September 1, 2003 and, thereafter is not the same as the structure used for TCEF (details are available upon request). Performance is shown net of any fees, carried interest allocations and expenses.

The Annualized Holding Period Return (the "buy and hold" return) in the Case Study on TFI International is presented for illustrative purposes only and was calculated from the time the position was established assuming no further purchases or sales. To be comparable to the Annualized Holding Period Return, Turtle Creek's IRR in the TFI International Case Study has been shown gross of any fees, carried interest allocations and expenses.

Cash Flow Value for each fund is calculated using the Manager's estimate of Cash Flow Value for each company weighted based on the relevant portfolio holdings at each calendar year end. Cash Flow Value for each company reflects the Manager's best estimate of the present value of the relevant company's future cash flows and is necessarily comprised of many assumptions, the use of which includes a number of risks and uncertainties that may cause actual value to differ from the Manager's estimate of Cash Flow Value.

Unless otherwise specified, all performance data for the Founders Fund, TCCF and TCUS are shown in Canadian dollars. Past performance must never be construed as investment advice or a prediction of future performance. The S&P/TSX Composite and S&P MidCap 400 are both total return indices. Comparisons to certain indices are provided for illustrative purposes only and are intended to indicate broad market performance. Comparisons to indices are limited in part because indices are not managed and do not charge fees or expenses. Each fund may underperform or outperform an index for many reasons.