Turtle Creek

2023 Letter to Unitholders

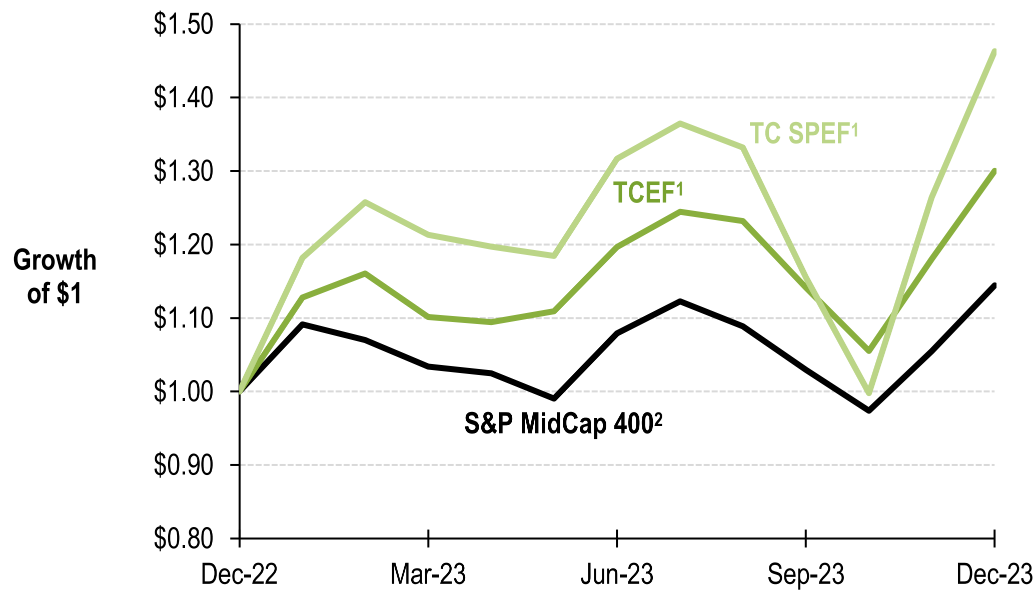
While performance in 2023 was strong, it was anything but smooth.

$1 invested at Turtle Creek's inception in late 1998 is now worth over $100.

Fellow Investors,

2023 saw strong gains in the stock market such that the various indices recovered much of their 2022 bear market declines. However, while the end point represented a healthy annual return, the ride was anything but smooth. After a strong start to the year, the market was roiled in March by the U.S. regional banking crisis, with the spectacular failures of Silicon Valley Bank, Signature Bank and First Republic Bank. But as it became clear that further banking contagion was not occurring, markets recovered through the summer. September and October saw a full on market correction as investors finally realized that interest rates weren't going back to zero. But then November and December witnessed strong gains in the market. You can see these fluctuations in the following chart.

2023 Performance



Turtle Creek's funds were, of course, not immune to these market gyrations, as evidenced above. But overall, the increases were more and the declines not quite as much, resulting in a substantially greater yearly gain for our flagship fund, Turtle Creek Equity Fund (TCEF) versus the Market. Also included on the chart is the unit price performance of Turtle Creek Synthetic PE Fund (TC SPEF).

Rather than focusing on a calendar year, we always stress the longer term. Much more important than one-year returns are Turtle Creek's ten-year and fifteen-year compound annual returns which are 10.4% and 17.7%, respectively.[3] To put our long term performance in, perhaps, more understandable terms, $1 invested at Turtle Creek's inception in late 1998 is now worth $101.

1. Based on the change in net asset value of the Fund's Class I Series 1.0 Units, shown in Canadian dollars.
2. S&P MidCap 400 performance is the price return shown in U.S. dollars.
3. See endnote disclosure.

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Turtle Creek

2023 Letter to Unitholders

This letter provides an overview of the year, with a focus on what happened with our funds. Then we discuss short term versus long term thinking, which we like to call Time Arbitrage. Next, we close out the Home Capital story and follow this with a discussion of volatility. We then discuss shareholder engagement, particularly as it applies to one of our holdings: Gildan Activewear. Finally, we close out the letter by marking our 25th year.

Continuous Portfolio Optimization added about 350 basis points to 2023's return.

We are always trying to construct the most attractively priced portfolio, regardless of geography.

Portfolio Highlights

Away from the market fluctuations described above, it was a fairly 'regular' year. In the flagship fund, we added only two companies and removed three, to end the year at 29 holdings. Over many years the number of additions has averaged between three and four, so two is unusually low. We don't think this is a trend – already in early 2024 we have added two companies.

Our active rebalancing, or Continuous Portfolio Optimization, provided an enhancement to a 'buy and hold' return, as it typically does. The best way to frame the enhancement is to compare what our returns would have been for the year if we had done nothing to the portfolio throughout the year. A static portfolio would have increased approximately 26.5%, which compares with the actual return of 30.0%. The difference, of course, is from our rebalancing.

The geographic mix between Canada and the United States in TCEF continued to shift toward the U.S., with roughly one third of the portfolio invested in Canadian companies and two thirds in U.S. companies. We aren't targeting any specific mix; we are always trying to construct the most attractively priced portfolio, on a risk adjusted basis. The geographic mix at any time is simply an outcome. Today, we are closely following more U.S. companies than Canadian, and it is likely this count will continue to grow in the United States.

We are not limiting ourselves to only North American listed companies. We could, for example, own a European company, but we have simply not yet looked there – we still have our hands full working through the United States. But if we came across a European listed company that met our criteria and was cheap enough to make it into the flagship fund, we wouldn't hesitate to add it.

We always stress to our investors that attention should be paid, in the short term, to the change in intrinsic value of the portfolios. This year, the intrinsic value – or as we call it, Portfolio Business Value, increased 3% for the flagship fund.[4] This is quite muted when contrasted with a typical year where the intrinsic value has increased at a rate in the mid teens. This year's more modest increase was not from anything bad happening to our companies. Rather, there were two contributing factors: modeling a recession and higher interest rates.

With regards to a recession, we want to be clear that we are not predicting one. We simply want to be consistent across our company financial models. If you think back to the onset of the Pandemic, we immediately modeled a sharp recession which reduced the intrinsic value of the flagship fund by about 3%. As it turned out, a recession never happened and, over the ensuing quarters, we restored our forecasts. For us, since we always strive to be roughly fully invested, the important thing is to be consistent in our assumptions across our companies.

4. See endnote disclosure.

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Higher interest rates in the past year have been a headwind to our growth in intrinsic value, although it's been a pretty modest one. Throughout the era of ultra low rates, we never reduced our discount rates (the interest rate we use to discount company future cash flows back to the present). If we had done so, our intrinsic values would have been 'artificially' boosted by using lower discount rates over the past decade and now those intrinsic values would be facing a headwind as we would be forced to raise our discount rates back up.

We never reduced our discount rates during the era of ultra low interest rates.

Also, in our forecasts of future cash flows, we never assumed that ultra low interest rates would continue into the future. Our approach was to look at the history of interest rates in the modern era and, based on these observations, we concluded that the best assumption was a 10-year U.S. treasury yield of around 4% (where it is today). So, in each of our forecasts, beyond the next few years, we use that interest rate plus a credit spread for each company.

By not changing discount rates over the years, and by using reasonable long term interest rate assumptions in our cash flow forecasts, the only impact on our valuations is over the next few years, and only for companies that have floating rate debt. In those instances, we have had to increase the rates they are paying on their current debt, but this is a modest headwind that has had a small impact on our Business Values.

These are one time headwinds to our Portfolio Business Value. Indeed, if the economy manages a 'soft landing' and if interest rates decline from current levels, they will become tailwinds.

In one respect, higher interest rates actually benefit the competitive position of many of our companies. As we have written about in the past, a majority of our portfolios are comprised of 'platform' companies: ones that are highly acquisitive. Typically, these companies compete with private equity buyout funds for acquisitions. With higher interest rates (particularly in the leveraged loan market), these public companies, with much lower leverage than that used by buyout funds, are in a strong position to complete attractive acquisitions that funds would have to finance with prohibitively expensive debt that, in some circumstances, may simply be unavailable. As well, our companies will likely have interesting acquisition opportunities from private equity funds as they are faced with refinancing the debt of companies they purchased when interest rates were ultra low.

Time Arbitrage

The market is comprised of both investors and speculators (with many more of the latter).

Over the years, we have written quite a lot about how 'inefficient' the stock market is – how the share prices of our companies can gyrate over very large ranges and only occasionally represent a reasonable proxy for fair value. Many of our clients, who are not 'in the trenches' the way we are, have trouble understanding how mispriced companies can become at times. It's understandable given the dominance of the efficient market hypothesis which has been around for nearly 60 years.

In order to appreciate how inefficient the market can be, it is first important to grasp that the market is comprised of both investors and speculators (with many more of the latter). Investors focus on the quantity, quality and timing of the cash that will be returned to them from the companies they own, while speculators worry about what other people will pay for their holdings. Investors treat stocks as fractional ownerships of underlying businesses while speculators focus on how they believe others are going to next act; they partake in a 'greater fool' world (hoping there will be another fool who will pay an even higher price), viewing stocks as pieces of paper to be swapped back and forth. Investors take a long term view and don't spend any time or energy trying to predict market price movements while speculators are wholly consumed with predicting the direction of share prices. In reality, no one knows what the market will do in the short term and trying to predict it is a waste of time. With so many market participants trying to predict the unpredictable, i.e. speculating, it's not surprising that traded prices often become so disconnected from fundamentals.

In reality, no one knows what the market will do in the short term and trying to predict it is a waste of time.

An example that we wrote about last year underscores the short term focus of the stock market. CarMax, the largest used car retailer in the United States, has seen its share price range from as high as $156 in late 2021 to as low as $52 in late 2022. The idea that the intrinsic value (the present value of all future cash flows) of the company has changed that much in such a short time is absurd, and no thoughtful investor would make that argument. We believe that the share price declined by two-thirds because the market was obsessing over the potential for weak earnings in 2023. And for sure, with lower used car prices and a softening U.S. economy, the results in 2023 were weaker. But the idea that short term weak earnings reduces the value of the company by two-thirds is ludicrous. This is a great illustration of the power of speculation. The prospect of weak results causes speculators to jump into action. They drive the price down which causes others to try to guess how far it will fall. There is a tug of war between various participants as the stock price zig zags downwards. At some point it stops. Why at $52 and not at $42 or $62? Who knows. We don't try to figure out the reasons why, but we do try to profit from it (more on this later).

The market's obsession with the short term provides opportunities for us.

Another example from our portfolio is a more recent addition: Floor & Decor. The company is the leading hard surface flooring specialty retailer in the United States. It has an innovative business model, a highly intelligent management team and impressive financial results. Not surprisingly, it has been a market darling such that, before last year, the company's shares were not cheap enough to be a candidate for our portfolio. But then Floor & Decor's share price declined more than 50% between late 2021 and late 2022. Like CarMax, a softer U.S. economy will definitely have a negative impact on Floor & Decor's near term results. Market participants, fixated on the prospect for short term weakness, drove a substantial share price decline, allowing us to add the company to our portfolio. Floor & Decor has a remarkable history of profitable, internally funded organic growth that we believe will continue for many years. The idea that a possible U.S. recession this year has cut its intrinsic value in half is irrational.

We could go on with more examples, but you get the point. The market is overly focused on the short term.

The market's short term focus is not hard to understand. In addition to speculators, there are good investors who want to think long term, but are pressured by their clients to post strong short term 'mark to market' returns. As a result, many excellent investors are forced to focus on the near term results of companies and then to try to guess what impact those results will have on the traded price. We see this all the time.

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Taking a long term view is a powerful competitive advantage when investing in the stock market. Let's go back to our CarMax example. The stock price fell by two-thirds and we can all agree that the intrinsic value based on the long term cash flows of the business didn't change anywhere near that much. We used the opportunity to increase the number of shares we owned of CarMax, from the beginning of 2022 to the end, by **five fold**. We believed that at some point, the traded price would recover and we would make a significant profit. So why are we able to maintain our long term focus when others can't? It's not any one reason but the confluence of many. For instance, one needs to be confident in one's view of value – we do the work as if we are going to buy the entire company (in effect, treating each holding as if it were private). And then one needs the proper temperament – a willingness to buy when others are selling. Our private equity background and our alignment – all of our money is at Turtle Creek – support taking a longer term view. When you combine all of these factors, you begin to appreciate how we are able to have such a long term view. But then, you have to add a final ingredient: **patience.** Because one never knows how long it will take for fundamentals to show up in a company's share price. Taking advantage of the market's short term focus with our long term approach is what we call Time Arbitrage.

When CarMax's stock price fell by two-thirds throughout the year we increased our ownership fivefold.

You can see the impact of Time Arbitrage in our historical results. While there are many ways to show this impact, our favourite way to illustrate it is using rolling periodic return comparisons in the form of a histogram.

We have the temperament to buy when others are selling.

But before we look at the histograms, let's start with the shortest performance period: one month. When you look at Turtle Creek's results since we started 25 years ago, our unit price in any given month has done better than the Market 57% of the time. This of course means that 43% of the time Turtle Creek's unit price has done worse. Keep this *57% better on any given month* in mind as we go through the next three graphs and you will understand what we mean by Time Arbitrage.

Taking advantage of the market's short term focus with our long term approach is what we call Time Arbitrage.

The histogram on the following page shows all of Turtle Creek's three year return periods, as well as the Market's three year return periods.[5] Period one is November 1, 1998 to October 31, 2001, period two is December 1, 1998 to November 30, 2001, and so on. As Turtle Creek has a 25 year history, there are now 267 such three year periods. Turtle Creek's results are above the line in green while the Market's results are below the line in black. Each three year return period is grouped into distinct 'buckets' of annualized returns in ranges of 10 percentage points: annualized returns between 0% and 10% in one bucket, 10% to 20% annualized returns in a second bucket, and so on.

5. See endnote disclosure.

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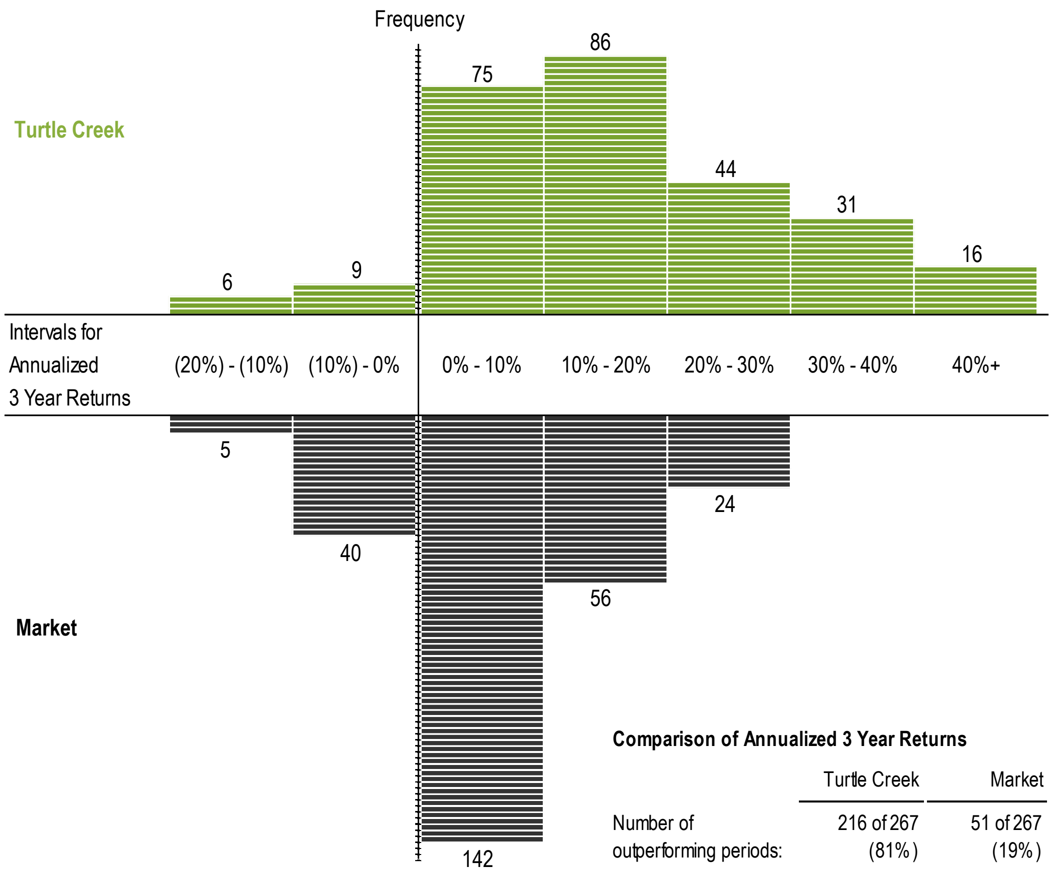
Frequency Distribution of Annualized 3 Year Returns (from inception on Nov. 1/98 to present)



Comparison of Annualized 3 Year Returns

	Turtle Creek	Market
Number of outperforming periods:	216 of 267 (81%)	51 of 267 (19%)
Number of negative periods:	15 of 267	45 of 267
Average return during the worst 15 periods:	-7.4%	-9.9%

Several things are noteworthy from the histogram. First, Turtle Creek's returns are 'shifted to the right' versus the Market. That's a good thing, meaning that we have produced fewer weak results vs. the Market, better average results, and meaningfully more outsized returns. Second, Turtle Creek's three-year returns are higher than the Market's corresponding returns 81% of the time. Third, when you compare our 15 negative periods to the Market's worst 15 periods, the Market was down more on average.

Now let's add time by moving from three year periods to five year periods of which there are 243.

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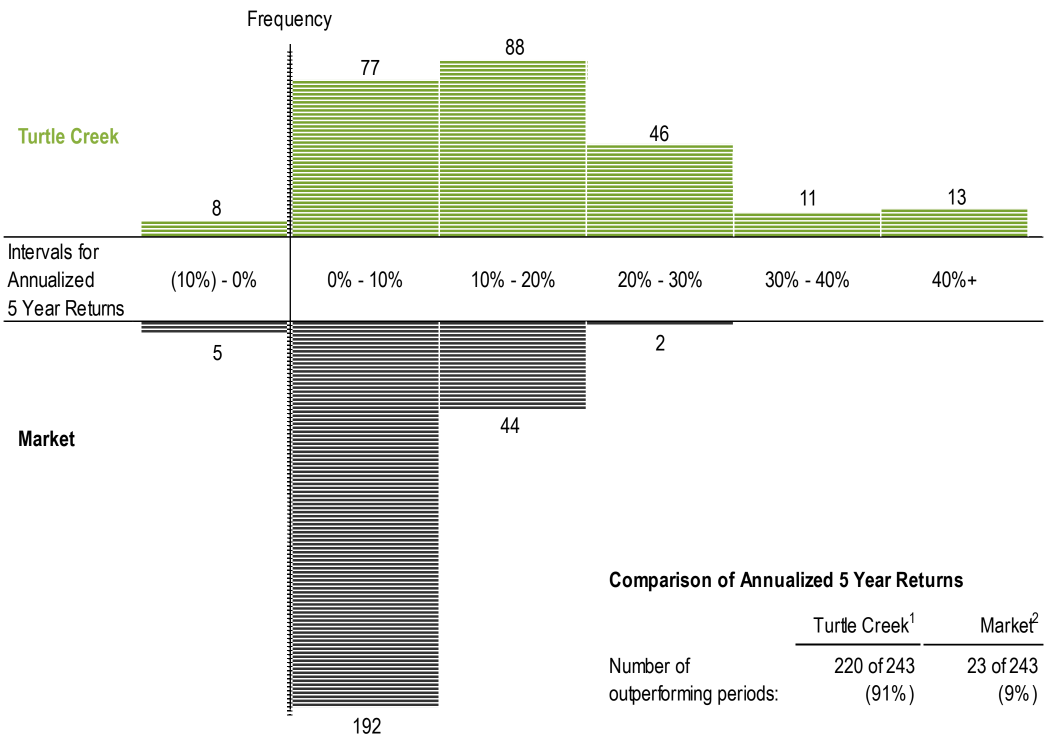
Frequency Distribution of Annualized 5 Year Returns (from inception on Nov. 1/98 to present)



Comparison of Annualized 5 Year Returns

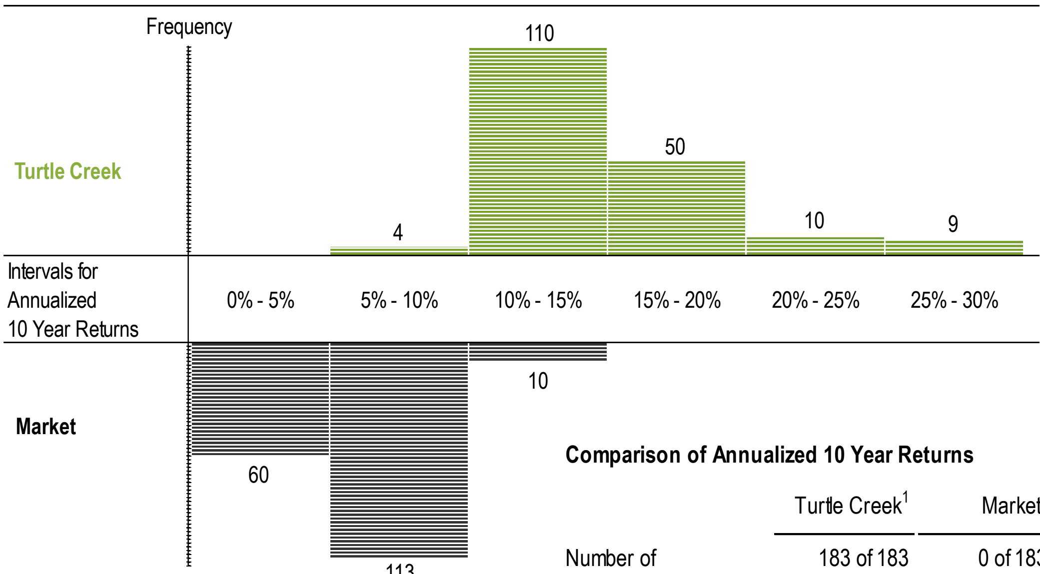
	Turtle Creek[1]	Market[2]
Number of outperforming periods:	220 of 243 (91%)	23 of 243 (9%)

Over five-year periods, Turtle Creek's returns are higher than the Market's corresponding returns 91% of the time, versus 81% of the time over three-year periods.

Now, let's add even more time by moving to ten-year periods of which there are 183.

When you extend to 10 year holding periods, Turtle Creek has always outperformed the Market.

Frequency Distribution of Annualized 10 Year Returns (from inception on Nov. 1/98 to present)



Comparison of Annualized 10 Year Returns

	Turtle Creek[1]	Market[2]
Number of outperforming periods:	183 of 183	0 of 183

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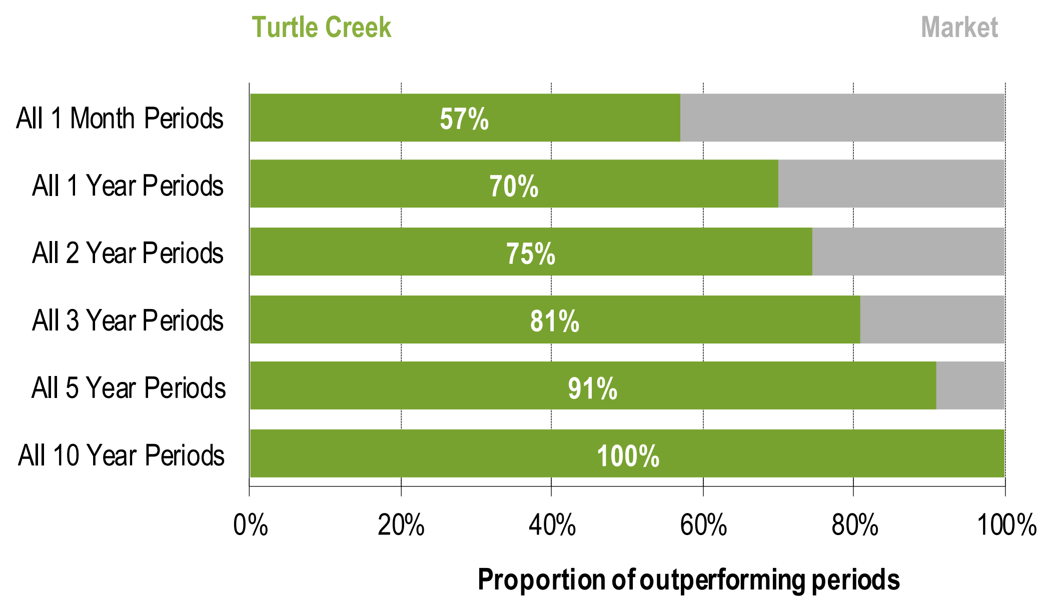
Taking a long term view is a key competitive advantage for Turtle Creek.

When you extend to ten year holding periods, Turtle Creek has always outperformed the Market. This is Time Arbitrage in action. Note that the annualized return 'buckets' have been shrunk from 10% increments to 5% increments, since over longer periods there is less divergence in compounded returns. Also, note that being invested in the Market has always generated positive returns for investors. We believe staying invested in the stock market over the long term is a good thing to do.

A summary of the overall outperformance of Turtle Creek referenced in previous graphs is shown below. We have used this slide in our investor presentation for many years, but it was always stuck back in the appendix and it was titled 'Rolling Returns Comparison'. Recently, we changed the title to 'Time Arbitrage' and moved it up into the main part of the presentation. Since we did that, we have had many comments like "that's the best slide I've seen". It goes to show how important titles are.

Rolling Return Periods from Inception in November 1998 to Present



Home Capital was a highly profitable investment.

Completing the Home Capital Saga

During the year, we removed three companies from the flagship fund. One of them was Home Capital Group which was acquired by Stephen Smith, the co-founder of First National Financial, at a price of approximately $44 per share. This completed the final chapter of what has been an interesting, sometimes turbulent, and ultimately, highly profitable investment for Turtle Creek.

For the past eleven years we were a shareholder (often the largest shareholder) of Home Capital. We will now provide a recap of the key events that occurred during this time and reflect upon the lessons learned and discuss how our thinking and actions highlight key elements of our investment approach.

Home Capital is a regulated trust company and bank that grew from very humble beginnings in the mid-1980s to become Canada's largest alternative mortgage lender. It has a history of careful underwriting with a focus on the value of the collateral underlying its loans. During our time as a shareholder, its loan losses averaged less than 0.1% per annum – a rate indicative of the prudence of its underwriting.

Short sellers made the mistake of thinking the Canadian mortgage market was the same as the U.S. market.

We had followed Home Capital for many years but never found the valuation attractive enough to merit adding it to our funds – it was a really good company trading at a full price. But in the aftermath of the Great Financial Crisis, and with the U.S. housing bubble bursting, the valuation became more attractive. There were concerns among many investors that Canada's housing and mortgage market would follow the United States' over a cliff. Our view was that there were profound differences between what happened in the United States, and the nature of the Canadian market. And now, a dozen years later it is clear that those differences are real – Canada never did experience anything like the U.S. housing market price collapse, and Home Capital (and its close competitor, Equitable Bank) have continued to earn high returns on equity throughout this period. We believe this will continue to be the case in the future.

But in 2017, the company faced a liquidity crisis. As a regulated trust company and bank, Home Capital offers CDIC insured (government guaranteed) deposit accounts and issues CDIC insured term GICs to investors. Furthermore, it had done a good job of matching the term of its assets with its liabilities – in other words, it funded shorter maturity mortgages with longer maturity GICs. But its funding activity also included High Interest Savings Accounts (HISAs) – effectively demand deposits – comprising about 10% of its overall borrowing. Within the span of a few weeks, these HISA deposits shrunk by 90%. Home Capital suffered a classic 'run on the bank' for that portion of their deposit base. Despite being government guaranteed, sales of GICs plummeted, forcing Home Capital to take further steps to stabilize the business.

What surprised most market participants, including us, was the speed and severity of the loss of confidence in the company. The fact that it happened in the face of an exceptionally strong credit environment made it all the more unusual. In particular, there had been:

- No collapse in house prices;
- No hikes in interest rates;
- No jumps in unemployment;
- No increases in mortgage arrears; and,
- No deterioration in the overall profitability of the company.

In other words, the run on the bank was **not triggered by credit issues** at Home Capital. Rather, the public lost faith in the company as a deposit taking institution because of a ***feeling*** that there was something wrong. Accusations, confusion and rumours swirled around the company and the belief that this regulated financial institution was a financially strong organization was very quickly replaced with the belief that the company was in difficulty. Home Capital certainly made some mistakes (for example, removing its CEO without a replacement lined up), but it ultimately was a combination of many outside forces and factors that destroyed confidence in the company.

The new board took strong actions to stabilize the company.

Our approach at Turtle Creek was to continue as we always have: to logically and rigorously assess the new information and to think probabilistically. We determined that constructive changes could be made in terms of management and the board, confidence would slowly restore, and while earnings in the near term would be sub-optimized, Home Capital's very strong balance sheet would allow it to survive this crisis.

As it turns out, we were correct in our assessment. Within a week, Home Capital's board underwent substantial changes with the addition of a number of very experienced financial industry executives. The new board took a series of immediate steps to stabilize the business and restore confidence. First, the company entered into an arrangement to sell-on, if necessary, up to $2 billion of new residential mortgage originations to allow Home Capital to continue to originate and renew mortgages without requiring new deposits. In fact, very little of this facility was ever used. Second, the company announced the sale of $1.2 billion of commercial mortgages at essentially par value, providing not only liquidity but evidence as to the quality of Home Capital's loan book. Third, and most significantly, the company issued treasury shares to Berkshire Hathaway such that Berkshire became a 20% shareholder of Home Capital (dropping Turtle Creek down to being the second largest shareholder). As a result of these steps, sentiment toward Home Capital improved substantially.

Warren Buffett's investment helped the company to recover more quickly.

While the company did not need equity capital, the board believed that the endorsement from Warren Buffett would speed the company's recovery. As the largest shareholder at the time, we had gone 'inside the tent' with the company so that we could help assess the alternatives they had. We strongly supported the board in the decision to choose to issue equity to Buffett over the other alternatives. We understood Buffett's endorsement would help restore confidence, and it did so in spades. Interest rates and purchase volumes for the company's GICs, which had already been improving, quickly returned to pre-crisis levels. At that point, new management was free to set about restoring the company to its market leading position.

We have always believed in Benjamin Graham's observation that in the short run the market is a voting machine, but in the long run, it is a weighing machine. However, a company must ensure it can withstand the negative short term 'voting' in order for the long term 'weighing' to take effect. At the time, we thought it was fitting that Warren Buffett, the most famous student of Ben Graham, became the largest shareholder of Home Capital – giving the company the time to prove the naysayers wrong.

Eighteen months later, Buffett sold his shares back to the company. This was another thing that the market misread at that time, with many investors worrying that he had 'found something he didn't like' at Home Capital. In fact, Berkshire had wanted to own approximately 50% of the company, but the second tranche of equity issuance was voted down by the shareholders. At a 20% ownership level, Home Capital was not a strategic position for Berkshire so it didn't surprise us that they opted to tender their shares into the first Substantial Issuer Bid that the company undertook.

Shortly after the investment by Berkshire Hathaway, an experienced industry executive, Yousry Bissada, was appointed Chief Executive Officer. Yousry, along with his new CFO, Brad Kotush, have done a terrific job over the past six years: book value per share is at an all time high, Home Capital is once again the largest provider of Alt-A residential mortgages in Canada and it continues to be very profitable. Moreover, in the past five years Home Capital has returned meaningful amounts of surplus capital to shareholders through share repurchases – shrinking the shares outstanding by over 50% at an average price of $25.68. With the company being taken over at $44 per share, those share repurchases clearly created a lot of value for the shareholders who didn't sell.

Over the past five years the company repurchased more than 50% of their shares.

The crisis period of our investment in Home Capital served to confirm some of our long held beliefs. For instance, we have always paid close attention to the boards that govern our companies but recognize it is very difficult to assess their quality: how well they function, how hard working the directors are and the boardroom chemistry, just to name a few considerations. We would make the same observation about Gildan Activewear's board, which we describe later in this letter. Prior to Turtle Creek, we served on many public and private company boards and recognize that looking at the backgrounds of each director doesn't help much in determining board effectiveness. At Home Capital, we had a ring side seat and ongoing interaction with the new board, having agreed to be made an insider. In other investments, where we are on the outside looking in, we recognize the importance of interaction with board members to assess their competence and effectiveness. With many of our companies, it has become common practice for us to interact at least annually (usually around proxy time) with one or more board directors to discuss a variety of matters including executive compensation, succession planning and ESG. Partly because of our background, but also because so many shareholders are passive, we punch above our weight in these board interactions.

Home Capital's crisis of confidence also provided a great example of how few investors are truly reflective and independent in their thinking – with most overreacting to every new rumour or innuendo. Coincidentally, during this period, we read a book called *The Knowledge Illusion* authored by two cognitive scientists. They point out that while as a group, humans have done amazing things, we are error prone and sometimes irrational. The fundamentally communal nature of intelligence and knowledge explains why we often assume we know more than we really do and why false beliefs are so hard to change. We were reminded of this fact almost daily as the Home Capital drama played out seven years ago. If you have the time to read the book, we highly recommend it.

Few investors are truly reflective and independent in their thinking.

The reality is, when you invest in the common equity of companies, sometimes bad things are going to happen. This comes with the territory of being an owner. If an investor can't handle that prospect, they should be substantially invested in cash. But it's not whether bad things happen – for sure they will – it's how an investment manager reacts in the moment and then deals with the situation. Should one simply cut and run? Should one instead try to help rectify the situation? If one does become more involved, does this run the risk of creating a distraction with regards to the rest of their holdings?

We are willing to be active with our companies when we think we can help.

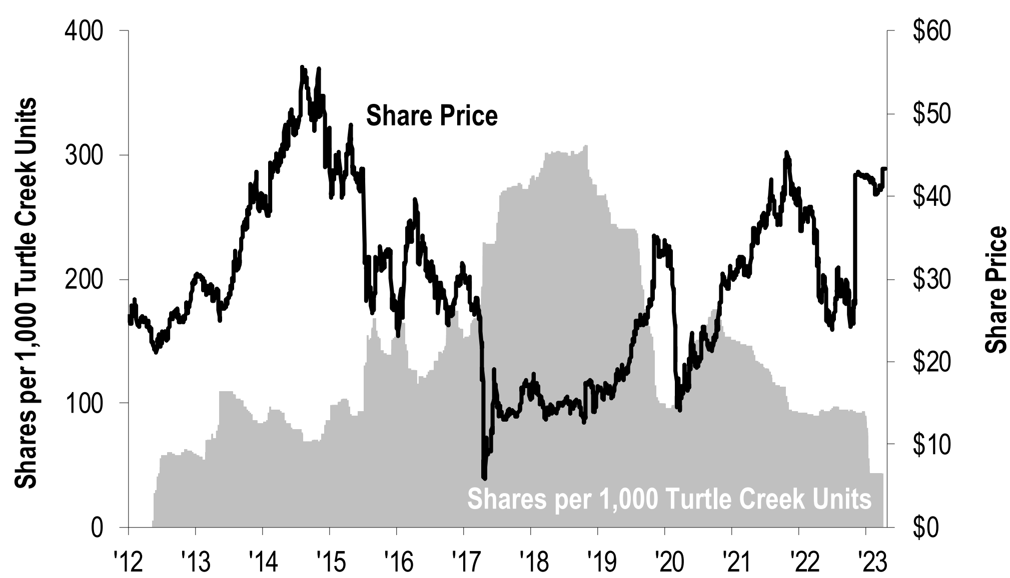
In the case of Home Capital back in 2017, our judgment was that the loan book was solid and the fundamental business sound. This gave us the confidence to remain the largest shareholder (although supplanted, for over a year, by Berkshire Hathaway), to purchase more shares at lower prices during the crisis and to provide input on a variety of issues that the company faced. Ultimately, the crisis created the opportunity to upgrade the board and management, which set the company up for many years of profitable growth.

At the end of the day, we spend our time trying to find companies that need no assistance from us and by and large, we have been successful in this endeavour. We delight in carefully following well-run and well-governed companies as they create value for their shareholders. However, in those circumstances where our input might be helpful, we won't shy away from becoming involved. We take our role as a shareholder – as an owner – seriously and we engage with our companies whenever we think we have something constructive to contribute.

Continuous Portfolio Optimization significantly improved upon a 'buy and hold' return.

Our eleven years as an owner of Home Capital is another terrific case study that illustrates the benefit of our Continuous Portfolio Optimization: rebalancing our holdings based on how attractively priced the shares are (relative to all the other companies we follow and own). The chart below shows our holding in Home Capital over the years. The grey shading is the number of Home Capital common shares held per unit of Turtle Creek. In other words, if you were an investor with us over this period, this was your experience.

Turtle Creek's ownership of Home Capital



It is worth noting that a buy and hold over the 11 years generated a return of 8% per annum. Even with the liquidity crisis and the dilution from issuing equity to Warren Buffett, Home Capital was a pretty good investment. Our return, however, is much higher, with an annualized IRR of 14%. It always looks easy in hindsight, but in order to buy more stock at lower and lower prices

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(and equally trim stock at higher and higher prices) one must have put in the hard work required to truly know the investment very well. And then one must have the temperament to buy when others are selling. The Home Capital graph demonstrates that we not only put in the work, we also have the right temperament.

Volatility? What Volatility?

In conversations with investors, we often hear something along the lines of: "I really like what you guys do. The only negative for me is that you are more volatile than the market." Clearly, they have a perception that we decline more than the market. Because we are so dismissive of volatility as a risk metric, our response has always been to explain how volatility is irrelevant and that, in fact, we are able to take advantage of fluctuating share prices through our Continuous Portfolio Optimization to improve upon a buy and hold return. But the problem with that response is that we appear to be agreeing that Turtle Creek has more downside volatility. This simply isn't true, and we wish to set the record straight: *Turtle Creek has less downside volatility than the stock market.*

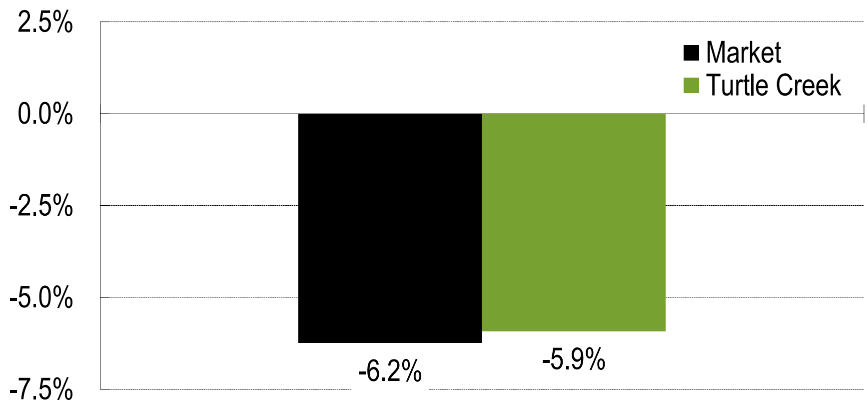
Turtle Creek has less downside volatility than the market.

There have been 302 months since Turtle Creek started over 25 years ago. Of those 302 months, the Market rose in 186 of them and declined in 116. There are two categories of negative months: months where everyone notices that the Market has fallen – October 2023 is a good example – and months where the Market finishes in negative territory, but not by all that much and it doesn't really make headlines. While there is no perfect dividing line for the two categories, we selected a decline of 2.5%, which creates two roughly equal buckets: 55 months where the Market declined by more than 2.5% and 61 months where the Market declined by less than 2.5%.

Let's first look at the 'big down' months. In those ugly months, the Market was down an average of 6.2% whereas Turtle Creek was down less, averaging 5.9%. We always tell investors that, when the Market sharply corrects, it's quite likely that Turtle Creek's unit price will decline along with it. And this is what has happened over the years. But to state it clearly for the record: Turtle Creek has averaged a lesser decline.

In 'ugly' market months, we decline less than the market.

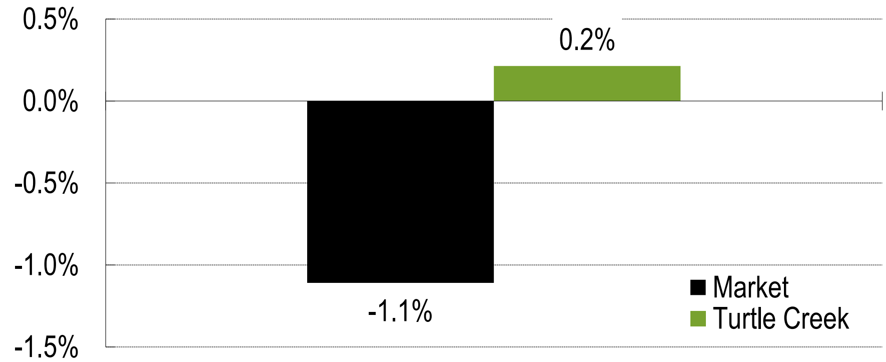
Average Monthly Returns during 55 Big Down Months[1,2]



During 'mildly' down months we were actually up.

Now let's look at the modest down months where the Market declines less than 2.5%. In this category, the average decline for the Market was negative 1.1%. For the same months, Turtle Creek was *up* 0.2% on average. The takeaway is that during non-headline negative months for the Market, Turtle Creek didn't just decline less, it actually increased.

Average Monthly Returns during 61 Modest Down Months[1,2]



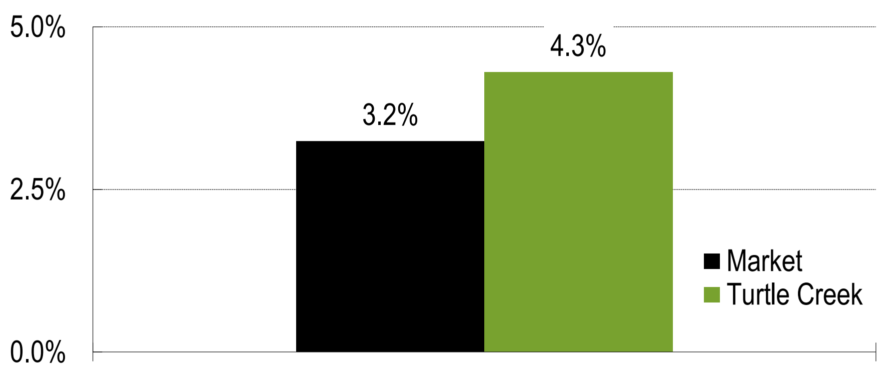
So there you have it. In negative months, we are less volatile, on average, and outperform the Market.

As an aside, the Market has declined greater than 2.5% in a single month – 55 months out of 302. In other words, one month out of every six, the Market declines by a meaningful amount. This can be scary for the average investor – it's no wonder that some people avoid the equity markets and instead earn lower returns in either fixed income or money markets. They are terrified of being down. But we have the temperament to take advantage of these traded price gyrations and earn outsized returns given our long term view.

In up months we are up more, resulting in a sevenfold betterment.

In terms of upside volatility – the good kind of volatility if you will – Turtle Creek is superior. When stock markets go up, we have tended to go up more. We've yet to meet an investor who doesn't find that attractive. When we look at the 186 positive months the Market has experienced over the last 25 years, we can see that the average increase for the Market was 3.2%. In comparison, Turtle Creek's average increase for those same months was 4.3%. That difference of 100 basis points, compounded over such a large number of months, results in more than a sevenfold betterment versus the Market. We think you would agree that upside volatility is a good thing.

Average Monthly Returns during 186 Up Months[1,2]



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We have been using the term volatility colloquially, in a way we believe investors actually think: On average, am I down more or less than the market? But academics often describe volatility using a statistical measure of how much returns differ from the average. In this sense, Turtle Creek is bound to have higher volatility – returns that differ more from the average return – **because we perform so well in up markets**. But this purely statistical measure is pretty misleading and so we want to reiterate the point that we don't think volatility, as a statistical measure, is something investors should be particularly concerned with.

The idea that price volatility equals risk is deeply flawed.

It helps to step back and understand where the idea that 'price volatility equals risk' came from. In the previous century, economists realized that it wasn't enough to look simply at investment returns – one also had to look at the risk that was taken to earn those returns. The problem is that while it is easy enough to measure investment returns, it is devilishly difficult to measure risk. So, academics chose volatility of share prices to proxy risk. In addition to incorrectly capturing upside volatility as described above, this approach also incorrectly assumes that markets are perfect: that share prices immediately and accurately take in all new information about a company and that the price at every instance is correct. If that were true, then using volatility as a risk metric would make more sense. But, as we have written about many times, this assumption is simply wrong. Robert Shiller, the renowned economist, has observed that moving from the observation that share prices are *reacting* so much to every new event, to the conclusion that therefore the market is *getting it right,* "has no basis in logic, and is one of the most remarkable errors in the history of economic thought. It is remarkable in the immediacy of its economic error and in the sweep and implications of its conclusion."

We focus our investors on changes in Portfolio Business Value.

Instead of focusing on unit price changes, we encourage our investors to instead focus on the changes in our Portfolio Business Values. This is our calculation of the intrinsic value of a portfolio based on detailed, balanced, long-term cash flow forecasts for each of the holdings. We believe this is a much more relevant measure in shorter time periods than our monthly unit price (net asset value) which is driven by the traded prices of our portfolio companies. To that end, we include the change in Portfolio Business Value in our monthly fact sheets.

Shareholder Engagement and Gildan Activewear

We have often described ourselves as "engaged" shareholders. Most readers are familiar with 'activist' investors: those investors who come out very publicly, often very loudly, typically criticizing management for not doing a terribly good job at some aspect of the business. Think of Nelson Peltz's current campaign to nominate himself and a former CFO to the board of directors of The Walt Disney Co. Quite often, it's triggered by the perception of an under-performing traded price. So what do we mean when we say we are "engaged"? Because of the nature of how we invest, in that we try to garner a deep understanding of a company, we have in-depth discussions with management teams, and to a lesser extent, their boards. Even though we may not be one of their top 10 shareholders, management teams respect and, quite frankly, enjoy our back and forth discussions. For a management team who is often fielding questions from hedge funds trying to get a read on how the next quarter is shaping up, it is refreshing for them to talk about the business and its economic engine. Inevitably, we share our thoughts on subjects like capital

For the first time in our history we have expressed our views in the press.

Shareholder response against the Board has been unprecedented.

allocation and compensation and often discuss some of the better practices we have observed at companies we truly respect. Occasionally, we might identify the need for a new board member and will quietly push for that change to occur.

Knowing this, you might have been surprised to have seen us in the news at the end of the year. For the first time in the history of Turtle Creek we chose to make our views public. For those of you who are not familiar with the Gildan Activewear situation, we will provide a quick summary of events. In mid December, the board of directors of Gildan (the "Board") announced that its long-time CEO and founder – Glenn Chamandy – had left the company. Mr. Chamandy quickly released his own statement indicating that he had in fact been terminated. This took us by surprise. We have owned Gildan for over a decade and a key reason we have been a shareholder is Glenn Chamandy. Gildan is one of Canada's great success stories where over the past 40 years Gildan has grown from a small family-owned business into a global apparel company with over U.S.$3 billion in sales. As well, its share price has seen a remarkable 90-fold increase over the last 25 years. This success is due, in large part, to the vision and leadership of its founder and long-time CEO, Glenn Chamandy. During our long participation as a shareholder, we have been impressed by Mr. Chamandy's stewardship of the business, his strategic vision, his extraordinary knowledge of its competitive landscape, his extensive operational capabilities, and his relationships with key stakeholders and customers.

The stories have been muddied in the press but we have concluded, and we feel confident that we have a good understanding of the situation, that Gildan's Board was hell-bent on implementing a succession plan for Mr. Chamandy, with or without his participation. And as it turned out, it ended up being without. This necessitated a drastic change in course for our firm. Quiet engagement was going to be ineffective here. We needed to go public. And we needed to do it quickly. While we were initially shocked, we do what we always do – calmly and coolly collect the facts. The afternoon of the announcement, we met virtually with Don Berg, the Chair of the Board. We listened to the Chair's reason for the termination and we asked questions. To sum it up, Mr. Berg described to us how Mr. Chamandy had agreed to a succession plan that the Board was executing on, but then he got 'cold feet' when it came close to the time to step down. The Chair acknowledged that we would have to speak to Mr. Chamandy in order to understand what he was thinking. And so we did. Mr. Chamandy's side of the story was drastically different and he appeared as passionate and engaged as ever. We concluded that this was a Board that was inflexible in their thinking and dogmatic in their pursuit of a succession plan.

Armed with this knowledge, we wrote our first letter to the Board. In it, we indicated that while we believe "that succession planning is an important duty of the Board", "the Board's abrupt termination of Mr. Chamandy appears to have been conducted in great haste, without meaningful shareholder engagement, and without considering the adverse impact on Gildan's business." What followed the public release of our letter was unprecedented. Within days of the announcement, shareholders owning over 35% of the company publicly spoke out in favour of Mr. Chamandy's re-instatement. But that's only the shareholders who have issued press releases. We believe opposition to the Board's decision is more widespread than that. Our legal and strategic advisors had never before seen a response of such breadth and speed.

But rather than re-considering their decision, that weekend, the Board entered into a hasty, self-

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serving, backroom deal with a short-tenured hedge fund shareholder, trading a Board seat for voting support. In addition, Luc Jobin, a Gildan director, went to the press and launched a defamatory campaign with the objective of painting Mr. Chamandy as an ineffective, disengaged leader focused on risky, half-baked acquisitions. So again, we set out to calmly and coolly collect the facts. The following day, we met virtually again with Don Berg, the Chair, Maryse Bertrand, the Chair of the Corporate Governance and Social Responsibility Committee and Luc Jobin, the Chair of the Audit and Finance Committee. For an *hour and a half*, we tried to understand the timeline of events that brought us to the point that saw the founder and 20 plus year CEO unceremoniously dumped. At the end we asked the Chair a simple question: *When we spoke with Mr. Berg last week, why had he not highlighted to us the Board's issues with Mr. Chamandy's acquisition strategy?* Mr. Berg responded that the termination arose from a dispute over the timing of when Mr. Chamandy would leave the CEO role, and not a dispute over acquisitions. We left the meeting shocked. It was clear to us that this Board needed to be significantly reconstituted. We then wrote and released our second letter to the Board.

This is a case of very poor corporate governance.

Again, fellow shareholders were also unconvinced by the Board's PR campaign. They continued to call for Mr. Chamandy's reinstatement. Browning West, a large and long-time shareholder, went even further, putting forth a slate of alternate directors. Browning West has requisitioned a special meeting that would allow all shareholders to have a voice in deciding who should represent them on the Board of their company. We issued a press release expressing our support for the calling of a special meeting, without delay, and indicating that we intend to support all of Browning West's proposed nominees.

We feel embarrassed for the Board and how they are acting. This feels more like some boardroom battle at a TSX Venture Exchange listed company. Gildan's Board appeared to be 'blue chip', befitting the company's $7.5 billion market capitalization and the Quebec and Canadian success story it is. But something is rotten here. We had a clear responsibility to speak out publicly.

In the face of ongoing delaying tactics by the board, we issued a third letter to the Board. Ultimately the board finally set the date of the annual meeting for May, a month later than usual. Finally, the owners of the company will have their say. We shall see what transpires.

Marking our 25th Year

Our approach has never varied through all different market environments.

During the year we celebrated the 25th anniversary of Turtle Creek. We have seen a lot of different market environments over the years: the Dot Com Bubble and bust, a commodity super cycle in the mid 2000s, the Great Financial Crisis, a historically long bull market and, most recently, a global pandemic. Through all these environments, Turtle Creek has applied a consistent and rigorous investment strategy. To be sure, we have fine tuned and improved our strategy over the years, but the fundamental approach has never varied.

The firm has grown from the three founding partners to 29 today, with the investment team itself having grown to 13 full time professionals. This increased team size has allowed us to deeply follow many more companies than was possible in earlier years. And while we have also grown from managing one fund to several, there is only one 'master list' from which the portfolios of each fund are constructed. The flagship fund selects from all the companies on the master list while our other funds select from subsets or 'sleeves' of the list. For example, Turtle Creek Synthetic PE Fund selects from the collection of 'platform' companies that would be suitable candidates for a leveraged buyout fund. The point is that having several funds does not increase the amount of work for the investment team as we are deeply following all these companies anyway.

The quality of our portfolios has never been higher.

By greatly expanding the number of companies we are closely following – companies that meet our high standards – the quality of the portfolios has never been higher.

We are excited about the future and in many ways feel as though we are just getting started. While we don't know exactly what the next 25 years will bring, we are pretty sure that markets will continue to fluctuate and that owning above average companies at below average valuations will never go out of style.

We thank you for your continued support.

Your Partners at Turtle Creek

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Disclosures

Information sources: Turtle Creek Asset Management Inc. (the "Manager"), Bloomberg.

Turtle Creek's 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 of its predecessor structures (collectively "TCIF"), and Turtle Creek Equity Fund ("TCEF") Class I Series 1.0 Units thereafter. Since TCEF and TCIF maintain substantially similar portfolios, 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 minimal 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.

A company's Business Value reflects the Manager's best estimate of the present value of the 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 values to differ from the Manager's estimate of Business Value. Portfolio Business Value is calculated using the Manager's estimate of Business Value for each company as described above weighted based on portfolio holdings.

The Market's performance from November 1, 1998 until December 31, 2015, reflects the performance of the S&P/TSX Completion (formerly called the S&P/TSX MidCap) and, prior to its creation on February 29, 2000, the S&P/TSX Composite. From January 1, 2016 to December 31, 2018, the Market's performance reflects the return from a 75% weighting in the S&P/TSX Completion and a 25% weighting in the S&P MidCap 400. From January 1, 2019 onward the Market's performance reflects the return from a 50% weighting in the S&P/TSX Completion and 50% weighting in the S&P MidCap 400. The S&P/TSX Composite, S&P/TSX Completion and S&P MidCap 400 are all total return indices. Beginning on September 1, 2003, an annual fee of 10 basis points has been applied to the Market, S&P/TSX Completion and S&P MidCap 400 on a monthly basis, to reflect the approximate costs of investing in a security that aims to track an index or benchmark. References to the Market are not intended to be references to the entire global financial market. The manager feels a blended benchmark, with varying weights, is appropriate because the weights noted above roughly correspond to the average country exposure of Turtle Creek during the same periods. Prior to December 31, 2015 Turtle Creek's average U.S. company exposure was less than 3%. From December 31, 2015 to December 31, 2018 Turtle Creek's average U.S. company exposure was 29% and since December 31, 2018 it has averaged 56%.

Past performance must never be construed as investment advice or a prediction of future performance. We have expressed our own views and opinions in this document and these may change without notice and may differ from others in the industry. This letter contains forward-looking statements. All statements, other than statements of historical fact, that address activities, events or developments that we believe, expect or anticipate will or may occur in the future (including, without limitation, statements regarding any objectives and strategies of the Fund or outlooks for the portfolio companies) are forward-looking statements. These forward-looking statements reflect our current expectations, assumptions or beliefs based on information currently available. Forward-looking statements are subject to a number of risks and uncertainties that may cause the actual results of TCEF, TCIF, TCCF or TCUS (the "Funds") to differ materially from those described in the forward-looking statements, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on, a Fund. Factors that could cause actual results or events to differ materially from current expectations include, among other things, length and severity of the pandemic, volatility in financial markets, fluctuations in currency exchange rates and interest rates, tax consequences, changes in applicable laws and other risks associated with investing in securities and those factors discussed under the section in the applicable offering memorandum of a Fund entitled "Risks and Special Considerations. Any forward-looking statement speaks only as of the date as of which it is made and, except as may be required by applicable securities laws, we disclaim any intention or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although we believe that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and, accordingly, undue reliance should not be put on such statements due to the inherent uncertainty therein.

Comparisons to certain indices are provided for illustrative purposes only, and are intended to indicate broad market performance. Comparisons to indices are limited because indices are not managed and do not charge fees or expenses. Our Funds may underperform or outperform the indices for many reasons. Past performance must never be construed as investment advice or a prediction of future performance.

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