April 8th, 2021

Nitor Capital Historical Net-Returns

2016: +26.50%
2017: +10.31%
2018: (-14.02%)
2019: +30.23%
2020: +47.69%
YTD: +10.30%
Net-Annualized 5-year Return: +18.23%
Net-Annualized Since Inception: +13.46%

"You will not be right because a large number of people momentarily agree with you. You will not be right simply because important people agree with you. You will be right, over the course of many transactions, if your hypotheses are correct, your facts are correct and your reasoning is correct. True conservatism is only possible through knowledge and reason."

–Warren Buffett 1962 Partnership Letter

Over the last few months, a handful of investors have reached out to congratulate the Fund on the performance over the last two years. While I certainly appreciate receiving any positive feedback, I believe it is important that our investors continue to look past our results on a year-to-year basis and instead focus on the two last rows above in **bold** (annualized returns over the last 5 years and since inception).

If you take a look back at our past annual reports, I have been rather consistent with this message.

2017 Annual Report:

"As seen above, the Fund returned +10.31% net of all fees and expenses to our investors in 2017. While we were satisfied with our 2017 annual return it is our hope that investors pay little attention to the returns in any given year and instead focus on the Fund's historical net-annualized return figure. While it would seem rather convenient to point focus toward the greater return figure (if this was the case we would have told our investors to focus on trailing 2-year performance), we believe our year-to-year performance is rather irrelevant. As we constantly preach in our letters, our focus is always on the long-term. When we invest in a company we focus on the rate of return that we will be able to generate over a minimum three to five-year time horizon. When we look at our investments, we constantly think about how they will impact our net-worth in five, ten, and even twenty years from now, rather than how they will impact our standing with our investors at years end. While investors in general tend to benchmark performance on an annual basis, we believe it is far more appropriate to focus on the rate at which we have compounded investor capital over the long-term."

2018 Annual Report:

"One question I have been asked over the years is "what did you do differently during your good years then you did during your bad years?" My honest answer is, not much. At NCM we are the farthest thing from traders and speculators. Our good years are not the result of good trades and profitable speculations and our bad years are not the result of poorly timed trades and unprofitable bets. When we invest in any company, we do so fully aware that our investment may not bare fruits in year-1, year-2 and sometimes not even by year-3. Instead, we are fully focused on what our annualized returns will look like by year-5, year-10 and even year-20. We believe investing our capital in great businesses and assets (at attractive valuations) gives us the ability to generate highly attractive, tax efficient returns over the long-term."

Top-5 Holdings in 2018 (when Fund was down 14%)

1. St. Joe Company (JOE)
2. Texas Pacific Land Trust (TPL)
3. Morguard Corp. (MRC.TO)
4. Berkshire Hathaway (BRK B)
5. Kinder Morgan Inc. (KMI)

Top-5 Holdings as of the end of 2020

1. St. Joe Company (JOE)
2. Berkshire Hathaway (BRK B)
3. Texas Pacific Land Trust (TPL)
4. Morguard Corp. (MRC.TO)
5. Williams Companies (WMB)

As shown above, our core portfolio holdings have remained relatively unchanged since 2018. In fact, we continue to own Kinder Morgan but the position was surpassed by Williams Companies after we recycled some capital out of KMI and into WMB in the beginning of last year.

While our performance can be volatile on a year-to-year basis our approach will always remain consistent; We only invest in great businesses or assets, run by proven and fully aligned management teams that we believe are being materially undervalued by the market. It is our core belief that an undervalued great business combined with a proven, aligned management team will ultimately generate superior long-term returns irrespective of macro and micro economic conditions. Evidence of such can clearly be seen in our performance over the last five years. If you look at our portfolio composition over this time period, the Fund has essentially been heavily overweight real estate and energy; two sectors, which have substantially underperformed the overall market. Yet, as shown below we still managed to significantly outperform:

Total Return From 2016 to 2020

Energy Select SPDR ETF (XLE)	(-19.09%)
Vanguard Real Estate Index Fund (VNQ)	+33.14%
S&P 500	+86.62%
Nitor Capital Fund	**+131.20%**

I believe this relative outperformance is the direct result of restricting our invested capital to best of breed companies capable of outperforming in any given environment or cycle. Although, energy has been the worst sector of the overall market over the past five years, our investment in **Texas Pacific Land Trust (TPL)**, which generates almost 100% of its income from oil and gas royalties and pipeline easements returned over 500%. We first invested in TPL in 2015 because it was a debt free investment that owned perpetual royalties on what had clearly become the lowest cost oil and gas basin in the country if not the world (Permian Basin)). We were comfortable owning this investment irrespective of the energy environment because we were confident it was the last place where drilling would stop and if anything would become more valuable in a lower cost energy environment due to the attractive economics of the Permian Basin. There were certainly weeks, and even months over the last five years in which shares of TPL got hammered along with the rest of the energy sector. As the old adage goes, "when they raid the brothel, they get everyone, even the piano player." While this certainly rings true in the short-term, over the long-term, as proven by our investment in TPL, competitive advantages and superior assets ultimately win out.

Another one of our energy investments, natural gas pipeline company, **Williams Companies (WMB),** also contributed materially to our results over the last few years. In the beginning of last year, the stock sold off significantly following fears of Covid slow down as well an oil price war between Russia and Saudi Arabia that resulted in a 65% decline in the price of oil. William's stock dropped from $21.50 to a low of $11 per share. We added to our position in the stock all the way down as we believed we were being presented with a rare opportunity to buy into a one-of-a-kind irreplaceable asset.

From our 2020 Investor Letter (April 7th 2020):

"However, as the stock sold off in late February and March, we significantly increased our position in the Company (for reasons we will detail below) and it is now our 5th largest holding. Williams is a natural gas pipeline Company whose pipeline infrastructure is critical to both the US economy and the US infrastructure system. Williams is responsible for transporting over 30% of the natural gas that flows through the United States. It owns what might be the single most valuable pipeline in the country "The Transcontinental Pipeline" ('Transco' - pictured below). Transco is the largest interstate gas pipeline network in the U.S. by volume. The roughly 1,800-mile network moves gas between South Texas and New York City, serving markets all along the Atlantic Coast. Simply put, if Transco were to shut down there would be mass power outages along the entire Northeast Atlantic coast…

We are happy to collect our 11.5% annual dividend and as panic eventually subsides, we expect William's even in a depressed market will eventually trade at a 7% to 8% dividend yield (given the low interest rate environment). If over the next two years Williams gets back to trading an 8% yield ($20 per share) we will have generated a 70% total return on this investment. We think this represents a highly attractive potential return based on what will likely prove to be conservative assumptions."

As of the end of this past quarter William's was trading at over $23 per share equating to a 7% dividend yield.

St. Joe Update

This year will mark our first report in which we no longer have to explain to investors why the market has yet to recognized the immense value that lies within St. Joe. The stock started 2020 trading $19.50, reached a low of $15.85 during the 'Covid sell off' and ultimately ended the year trading at $42.45 per share. During this rather volatile period of time our conviction in this investment never wavered. We materially added to our position as the stock headed toward $15.85 per share and did not sell a single share as the stock rocketed up toward $50 per share at the end of the year. There was no speculation or gamble behind our decision to keep adding to the position on the way down (even though it was already our single largest holding) and the same can be said for our decision to hold onto our position and not sell a single share on the way up. We simply did not let the stock price action in either direction alter our view of the Company. Instead, we relied on the years' worth of research and time that we put into the investment.

In our 2018 annual letter when JOE was a $16.50 per share, we wrote the following:

"St. Joe continues to own a one-of-a-kind irreplaceable asset that provides the Company with material competitive advantages. ***Overtime, these advantages will enable St. Joe to generate massive amounts of long-term recurring cash flows. Yet the market continues to remain completely oblivious to this…..***

We own the St. Joe Company because over the next 5 to 7 years we believe the shares will be worth anywhere from 2x to potentially 4x the current value and therefore a 25% increase or decrease in stock price in a given year is rather immaterial. It is easy to see how an investor might view our response with substantial doubt. ***How can such an underperforming investment all of a sudden double, let alone quadruple in value?*** *The answer lies in the implied value of St. Joe's land. At its current share price, the market values St. Joe's land at roughly $4,350 per acre (even less when factoring in the value of other assets).* ***What happens when investors come to the inevitable realization that the Company doesn't own rural swampland but prime undeveloped land in one the fastest growing areas of the Country?***

All of the data and information we collected over the years indicated that St. Joe's assets were likely worth $50 to $65 per share, that the Company had a superior and fully aligned management team, and that a clear competitive advantage existed that would enable material

growth to occur over the long-term. In our view, stock price volatility was merely short-term noise.

During the height of Covid we wrote the following:

> "*That being said, when we eventually get through this unfortunate period of time (which we will) St. Joe will return to its growth trajectory as the Company's growth is supported by long-term structural tailwinds, which have been building over decades (Migration to Florida, low-cost housing in St. Joe's area relative to the rest of Florida and the fact that St. Joe controls almost all of the remaining developable land in their area).*
>
> *We believe this sell off will ultimately prove to be short-lived as St. Joe is clearly one of the best positioned Companies financially to whether this shut down and* ***will ultimately come out stronger (due to the Company's dry powder, unlevered assets, and likelihood that we will come out of this pandemic with historically low mortgage rates, which will only further spur the Company's future residential land sales).*** *There is a reason why St. Joe's stock price was on a tear since the start of 2019 (was up 71.3% pre-corona) and I hope the above information gives you the same certainty that I have that this Company has the capital and wherewithal to survive an economic downturn and come out a stronger Company once the dust settles. "*

The 'inevitable realization' scenario mentioned in our 2018 letter started to materialize toward the end of 2020 after the Company initiated a quarterly dividend and announced Q3 2020 earnings, which showed that total revenue, operating income and net income grew by 28%, 49% and 37% respectively. Shares of the Company climbed by over 70% in the two-month period that followed and reached a high of $49.95 per share vs. $24.86 prior to the earnings report. A few months later, the Company released Q4 2020 earnings, which were even more impressive than the prior quarter. In the middle of a pandemic while most companies were doing their best to simply maintain their business St. Joe delivered the following results:

> ***Q4 2020 Earnings Release (2/24/2021):***
>
> *"Net income for the fourth quarter of 2020 increased approximately 128% to $19.8 million, or $0.34 per share, compared with net income of $8.7 million, or $0.15 per share, for the same period in 2019. Total revenue increased 50% to $63.9 million for the fourth quarter of 2020 as compared to $42.6 million for the fourth quarter of 2019. The increase was driven by a 65% increase in real estate revenue, a 38% increase in hospitality revenue and a 7% increase in leasing revenue. For the full year ended December 31, 2020, the Company's net income increased approximately 69% to $45.2 million, or $0.77 per share, compared to net income of $26.8 million, or $0.45 per share,*

It goes without saying that any Company that managed to grow hospitality revenue by 38% during the Covid pandemic clearly has some sort of unique competitive advantage. Going forward, all of our data tells us that Q3 and Q4 earnings represent only the 1st inning of St. Joe's growth trajectory. We fully expect the Company's yoy growth rate to continue to increase over

the next few quarters and more importantly over the next few years…… This is only the beginning for St. Joe.

Opportunities in a Raging Bull Market

One of the best parts of a raging speculative bull market is that while everyone is fixated on the likes of Tesla, GameStop and the next hot 'play,' the opportunity to invest alongside a proven investor with an incredible track record at a significant discount to net-asset-value (NAV) gets completely ignored.

Imagine the following scenario: One morning a businessman with an impeccable long-term track record of success walks into an investors office and tells them the following:

"In 1995, I started a real estate business with just $500,000 of equity. Over the last 25 years I built the Company into a large diversified owner and manager of real estate. Over this period of time, I managed to grow the initial $500,000 of equity at a compounded annual growth rate of roughly 20% and according to our most recent financial statements our equity is now worth $1.287 billion. However, I believe this figure highly understates the true value of our Company as some of our most valuable assets are being held on our balance sheet at their original cost basis dating back over 20-years. Using conservative current market values for all our assets I believe our equity is likely worth over $2 billion (supporting data can found on the last page of this report).

I have come to you today with the opportunity to buy shares in my Company at a value of just $920 million. Such a valuation would provide you with 40% upside to the value listed on our financial statements and over 100% upside to what is likely the current fair market value of our equity. Lastly, as mentioned, I have a 25-year track record of compounding equity at a 20% CAGR. If I can continue to compound our fair value at a rate of 10%, in five years from now the Company's equity would be worth over 250% more than the valuation you would be buying into.

Investor: How is this possible? Who is selling their shares?

Businessman: I currently own 45% of the Company, the rest of the Company is owned by individual shareholders and they are the ones willing to sell their shares to you at the current discount.

Investor: I don't understand, is the Company in financial distress? If you have a 25-year track record of compounding equity at 20% and your equity is worth somewhere between $1.287 billion to over $2 billion why would anyone sell their shares at such a low valuation?

Businessman: Nope, we are not under any financial distress. To the contrary, we are actually in the best financial position we have ever been in. Over the last 24 months we paid down over $250 million of debt and we are now sitting on a record $430 million of liquidity.

Investor: So why the hell would anyone want to sell their shares at such a discount?

Businessman: Your guess is as good as mine. It seems that investors are completely fixated on the latest technology trend, green investment, and hot SPAC that they have no interest in owning

a share of our 'boring' business. But instead of complaining about it, I have tried to take advantage of the situation by investing over $360 million of the Company's cash flow to buy out some of these shareholders who are willing to sell their shares at a discount. As a result, I have increased the remaining shareholders interest in our Company by nearly 30%.

Investor: So clearly there has and continues to be a significant gap between the fair market value of the company and what investors are willing to pay for a share of your Company. Why should I believe, this gap will ever close?

Businessman: I am glad you asked. As mentioned, I own 45% of the Company. On the valuation being offered today my investment in the Company is worth $415 million. Using the listed equity value my investment is worth $580 million. Using what I believe is the fair market value of the Company my investment is worth over $900 million. And if I can continue to grow the Company at an annualized rate of just 10%, in five years from now my investment would be worth nearly $1.4 billion. So therefore, I will have $1 billion reasons to make sure value eventually gets back to shareholders. In the meantime, I am going to continue to buy back as many shares as I can while the gap persists.

Investor: Okay, this sounds great, what type of fees will you be charging me for this opportunity?

Businessman: We only charge fees to the private and publicly traded funds we manage; we don't charge any fees to the shareholders invested in our actual Company. As CEO of the Company, I take a $1 million salary and on good years an annual bonus. Combined, my total compensation between the two has rarely if ever exceeded $5 million, while CEOs of other large successful real estate companies will often pocket over $10 million annually.

Investor: Got it, so you have a proven track record, you are fully aligned but what happens if you turn out to be wrong about the actual fair market value of your assets?

Businessman: Considering you are already buying in at an over 25% discount to the listed equity value and we are sitting with over $430 million of liquidity I see very few scenarios in which your investment will end up being worth less five years from now. Meanwhile, there is plenty of available information that would imply your investment could appreciate by 2x to 3x over the next few years. A rather asymmetrical investment opportunity.

You: Amazing! how do I sign up?

Businessman: Very simple, open up a brokerage account and buy shares of our Company Dream Unlimited Corp, ticker DRM.TO.

Conclusion

I hope the above parable on Dream Unlimited Corp. (DRM.TO) provides you with just another glimpse into our investment process. As some of you may recall we have owned and followed Dream for the last 5+ years. Over this period of time Dream has grown its per share equity value at a compounded rate of over 20%, yet the stock price is lower now than it was at the time we made our initial investment (overall we have made some money on the investment as a result of averaging down on the position). Over the last few months, we have materially increased our position in the Company, as history has shown time and again that whenever the below combination exists a positive outcome is almost inevitable.

1. Irreplaceable business or assets ✓
2. Business/Asset within our circle of competence ✓
3. Research clearly supports that stock is materially undervalued ✓
4. Aligned & proven management (value will eventually be unlocked) ✓

Regards,

David

Top Five Holdings as of 3/31/2021

1. St. Joe Company (JOE)
2. Berkshire Hathaway (BRK B)
3. Texas Pacific Land Trust (TPL)
4. Dream Unlimited Corp. (DRM.TO)
5. Morguard Corp. (MRC.TO)

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Dream's Notable Accomplishments & Assets:

- In 2007 sold 2/3rds of an office portfolio to General Electric for $1.6 billion right ahead of the global financial crises.
- In 2004 paid $7.75 million for a 50% interest in 13-acre property in downtown Toronto.
    - Developed property into 1,000+ condos and 395,000 sq ft of commercial retail space.
    - Taken out over $100 million of cash from this asset while the remaining commercial space is worth $150 million.
    - Added to this assemblage over the years and now has control and a 50% ownership interest in 62 contiguous acres in Downtown Toronto.
    - Ability to develop, 3,100 condominium units, 2,600 purpose-built rental units and 1.1 million sf of retail and commercial space.

- In 1997 paid $4 million to buy Arapahoe Basin ski mountain in Colorado from Vail Resorts. A-basin currently generates over $10 million of annual earnings for Dream.
- In 2019, sold a European office REIT to Blackstone for $6.2B. Received $400m of net after tax proceeds for the management rights of the REIT and for the Company's $20 million equity investment made in 2011. A 20x return over an 8-year holding period.
- Maintains ownership interest and full management of three REIT's that provide $24 million of annual dividends and $30 million of asset management fees.
- In total company manages over $10 billion of AUM, which includes a growing Private Equity platform.
- Continues to own 9,187 acres of land in western Canada, which was purchased between 1996 and 2007.

Discrepancy between book value and actual value:

- The ski hill I mentioned earlier (generating over $10 million of earnings) is held at just $38 million (cost + improvements). High barrier to entry asset, with organic growth opportunities that cant be 'printed,' likely worth anywhere from $100 million to $150 million.
- The 9,187 acres of land are also valued at original cost of $52k per acre.
    - The majority of this land was purchased between 1996 and 2007 and last year sold a 75% interest in 480 acres of this undeveloped land for $180k per acre.
    - Almost all of the remaining land is either within or directly adjacent to city limits and over the last five years undeveloped land in this area has rarely if ever sold for less than $125k per acre.
    - At $75k per acre would equate to $230 million of excess value over the balance sheet.
- $43 million intangible asset attributed to the value of the asset management business. business generated over $30 million of fees last year.

- Asset management agreement with the Industrial REIT entitles Dream to a 15% carry on the gains from any assets sales. As per the REIT's financial statements there is currently a $900m difference between fair value of the properties and the cost basis.
- If Dream were to sell the REIT they would likely generate over $200m between the 15% carry and the breakup fee for the asset management agreement. none of this value is carried on the balance sheet.

- Toronto and Ottawa Development assets:
  - Based on their ownership share, Dream owns land where they will have the ability to develop 6 million square feet of residential and 1.5 million sq. ft. of commercial. Development sites in these areas will typically sell for $150 to $250 per ft. Would equate to over $1 billion of value on the low end. If we discount this figure by another 50% it still represents over $250 million of additional value not present on the balance sheet.

Using conservative assumptions, one can come up with over $800 million of value that is not present on the balance sheet. Adding in this value implies over $2 billion of equity value for Dream. Over the next few years the Company should generate a base case of $75 million of annual earnings and we expect the majority of those earnings will be returned back to shareholders in either the form of buybacks or dividends.