FAIRFAX FINANCIAL

Second Edition

The Re-Emergence of a Wonderful Company

A collection of posts by **Viking Vancouver**,
an investor on the *Corner of Berkshire & Fairfax* investing forum

Updated May 2026

With sincere thanks to the many current and past investors
who have posted on the *Corner of Berkshire & Fairfax* investing forum.
The collective wisdom shared there over the years has been life-changing
for me and my family. A special note of gratitude to Sanjeev Parsad,
who founded the forum in 2002 and continues to manage it to this day.

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Preface to the Second Edition

I first published my collection of posts on Fairfax as a single PDF/book in August 2023. At that time, it contained 192 pages of material, organized into 14 Chapters. Since then, much has changed.

Over the past couple of years, our understanding of Fairfax – its fundamentals and its underlying earnings power – has significantly improved. The picture of the company is coming into much better focus. Investors like what they are seeing. And the stock continues its improbable run higher.

This book is a working document for me. As a result, it is constantly being updated. New posts are added. Sometimes old posts get updated. Other times, I will add topics/pieces that I want to expand upon in the future. As a result, parts of the book will appear incomplete – that is because they are.

About once a year, I reorganize the book's structure - adding chapters, relocating posts, and refining the layout – to hopefully make it easier to navigate. The book now includes over 900 pages of material, organized into 21 Chapters.

Recent changes in content and structure were significant enough that I've named this release the Second Edition. I also updated the subtitle. The original subtitle, "Hiding in Plain Sight," reflected the opportunity offered by Fairfax between 2021 and 2023. The new subtitle, "The Emergence of a Wonderful Company," better captures the opportunity presented by Fairfax today.

While Fairfax remains the core focus, this book has grown into much more. It also chronicles my personal journey over the past five years to becoming a better investor.

The feedback from readers has been very positive. The assistance provided by members of the investing forum *Corner of Berkshire and Fairfax* continues to be amazing. And a special shout out to Asheef Lalani, Charlie Frischer, Matthew Cullen, Tarn Crowe and Nigel Woodman for their ongoing help and support – when it comes to Fairfax, they are the "Fab 5."

The past couple of years has been an amazing time. I have had the opportunity to meet and hang out with some truly outstanding investors/people – a number of whom have become good friends.

I hope long-time readers find this updated edition to be an even more valuable resource. And new readers find it interesting and informative – and something that spurs them to learn more.

I am really looking forward to seeing how everything plays out with Fairfax over the next couple of years. Because, as Warren Buffett teaches us: "Time is the friend of the wonderful company."

Viking (Lars Nordal)
May 2026

Introduction

What follows is a collection of more than 90 posts, most of which were written over the past 24 months. Many of the individual posts read like an essay – a short article on a particular subject. The 'subject' is a little followed, misunderstood, scrappy insurance company called Fairfax Financial.

My intent in publishing this document is to inform and entertain. This is NOT intended to be financial advice (more on this topic later). It is impossible to know everything about a subject. At times, this makes it necessary for the author to try and 'fill in the blanks.' Therefore, when telling this story, the use of some creative license has been necessary.

My Fairfax Journey

I have followed Fairfax for 20 years, buying my first shares in 2003. I am not a buy and hold investor. I buy when the shares are cheap, and concentrate when the shares get 'crazy' cheap. And I lighten up when the shares go higher and become more fully valued. I did this first with Fairfax in 2003 and again in 2006-09. And now for a third time from late 2020 to present. I was largely out of the stock from 2010-2018, because I did not like what Fairfax was doing with their investments. I was able to semi-retire (quit my day job!) at the age of 40, largely due to the gains from my different investments in Fairfax. Over the years, I have invested in numerous other stocks and have done reasonably well with them. But my outperformance has been mostly driven by Fairfax (owning a concentrated position in Apple from 2013-15 also helped). As a result, Fairfax has a special place in my heart and this likely affects my views on the company.

Why Post So Much on One Company?

One word: concentration. The outperformance of many successful investors is often driven by a couple of concentrated bets (to learn more, research investor Stanley Druckenmiller). But concentration only works if you have a very good understanding of the company and its situation. And you are right. For this to happen you have to put in the work. There are no short cuts - hence why concentration is a terrible strategy for most investors. What is contained in this document is some of the work that I have put in over the past 36 months to try and better understand Fairfax.

Corner of Berkshire and Fairfax: https://thecobf.com

I have had lots of help along the way. I have been a member of the investing forum *Corner of Berkshire and Fairfax* (COB) since 2003 - this is where I got the idea to invest in Fairfax in the first place. The investing forum has been an invaluable resource to communicate and debate ideas - think/write/discuss - often in real time as events happen. I have been able to tap into the collective wisdom of its extensive membership - learning more about Fairfax and investing in general.

So, a big *thank you* to the community at COB. Much of the collective wisdom of this group has found its way into this document.

Why Was This Document Created?

I like to write long-form posts. I also post quite frequently. Given how much digital ink I had spilt writing about Fairfax, I decided I needed to keep track of my posts more carefully. About 24 months ago, I started keeping them in a Word document. The posts kept coming and soon I had more than 100 pages of material, which became more than a little unruly. I decided to organize everything into several broad topics, which became chapters. Then I decided it would be useful to edit the entire document to make it more readable. What emerged is what you are reading here. Warning: it is a bit of a Frankenstein document.

I did not write individual posts with the idea of folding everything into one document. The topics of the posts varied greatly. Sometimes I wanted to learn about a specific part of the company so I would do a deep dive. Other times, I would step back and look at Fairfax from a distance. Lots of posts were inspired by current events. I am also a bit of a history buff so a large number of posts dig into Fairfax's past. I have also included numerous source material (quotes and links) so readers can make up their own minds – they do not need to rely on my interpretation of events.

How is the Material Organized?

The material has been organized into 14 chapters. Each individual post is listed in the Contents which make it easier for the reader to identify topics of that might be of interest. And for ease of readership, with a simple click or tap, the individual posts can be accessed directly from the Contents via a hyperlink.

The posts sometimes contain material that crosses over to other Chapters so the organization is loose at best. The posts can also be a little repetitive. To help make the document more readable, some of the posts have been edited or updated. Bottom line, as editor, I have done as I saw fit.

The Fundamental Flaw of Compiling a Collection of Old Posts

Despite some editing, most posts have been copied largely as they were originally written. I have included the date they were posted/edited to provide the reader with much needed context. This is very important because, to state the obvious, things are constantly changing at Fairfax, in the P/C insurance industry, the economy, with the weather (think hurricanes) etc. And every 90 days we get a new earnings release from the company.

As a result, the underlying fundamentals at Fairfax are constantly changing. I usually update my models every couple of weeks - and incorporate new information. However, these important changes do not make their way into old posts – only new posts. What the reader is getting with each post is a glimpse into what I was thinking about Fairfax and the topic being written on that date – not what I think about Fairfax and the topic today.

Other Important Shortcomings with This Document the Reader Should Be Aware Of.

1. **I like to forecast (which is another word for guess).**

But my crystal ball is no clearer than that of the average person. All of my forecasts in older posts are already wrong. And my forecasts in newer posts will be wrong soon. That is the nature of forecasts – they are simply a best guess at a point in time. As time moves forward and new information becomes available then old forecasts become obsolete. (Before you decide to stop reading this document - most of my forecasts on Fairfax over the past three years have been wrong - because they have been too conservative.)

2. **I have opinions on lots of things.**

And I am sometimes wrong. But I do not know where I am wrong (or I would change it). The reader needs to examine this document with a high degree of skepticism. As well, my opinions on many topics are constantly evolving. The reader needs to keep this in mind.

3. **Most importantly, I know my understanding of Fairfax is flawed**

To state the obvious, the management team at Fairfax was not involved in the preparation of any part of this document. As a result, I have an outsider's perspective and this means my interpretation of historical events and analysis of the company is going to contain errors.

A Message from the Legal Department:

This document contains lots of errors. It is also full of opinions that may or may not be accurate. I do not have an insurance background. Or an accounting background. I have never worked in the investment or banking industries. And I am not a writer. Most importantly, this document is NOT intended to be investment advice. Consult a professional investment adviser before making any investment decisions. To state the obvious, making investment decisions based on the ramblings of some person who posts anonymously on an investing forum could be disastrous.

Conclusion

My goal with this document is to provide a broad collection of writings on Fairfax that weave a story of the company – its past, present and future. Hopefully it also educates and entertains along the way and motivates you to want to learn more about this iconic Canadian company.

Viking (Lars Nordal)
August 2023

Chapter 1: An Overview of Fairfax

The Re-Emergence of a Wonderful Company

January 16, 2026

> 'Time is the friend of the wonderful company..." *Warren Buffett*

Fairfax was founded in 1985. If you had invested $1,000 with Prem Watsa and team at the very beginning you would now have more than $1 million today (US$, with dividends reinvested). Yes, that is an amazing return (a CAGR of 19% over 40 years).

But what gets us excited about Fairfax today is what has happened over the past 8 years. And how the company is positioned and the implications for investors. That is the focus of our book.

Fairfax is in the process of writing one of the greatest comeback stories in modern Canadian business. What started out in 2020 as a turnaround play then pivoted into a value play. And right before our eyes, it is now slowly morphing into a quality play. In recent years, Fairfax has been transformed - from an ugly caterpillar into a beautiful butterfly.

What Does This Mean for Investors?

The numbers speak for themselves. Over the past 5 years, Fairfax's stock has increased in value by 503% (C$) and 460% (US$) – excluding dividends. Over the same period, both the S&P500 and S&P/TSX indexes are up 82%. Fairfax hasn't outperformed; it has obliterated the benchmarks.

Fairfax's Share Price: 5-Year Performance Versus the Market Averages

Ex Dividends	Fairfax C$	Increase %	Fairfax US$	Increase %	S&P500 US$	Increase %	S&P/TSX C$	Increase %
Dec 31, 2020	$434		$341		3,756		17,433	
Dec 31, 2021	$622	43%	$492	44%	4,766	27%	21,223	22%
Dec 31, 2022	$802	29%	$594	21%	3,840	-19%	19,385	-9%
Dec 31, 2023	$1,223	52%	$921	55%	4,770	24%	20,958	8%
Dec 31, 2024	$2,000	64%	$1,390	51%	5,882	23%	24,728	18%
Dec 31, 2025	$2,616	31%	$1,908	37%	6,845	16%	31,713	28%
5-Year Total Increase		503%		460%		82.3%		81.9%
5-Year CAGR		43.2%		41.1%		12.8%		12.7%

This document is not intended to be financial advice. Its purpose is to educate and entertain. Amounts are in US$.

After a run like this, you probably think you missed it.

Is Fairfax the Big Fish That Got Away?

We don't think so. It looks to us like Fairfax is just getting started – its best years still lie ahead. This chapter will provide an overview of the company and why we are so optimistic about its future.

A Corporate Epic Playing Out in Real Time

Fairfax's corporate journey in recent years has had all the elements of an epic adventure:

- A hero who loses his way (ahem… equity hedges and shorts).
- Leading to a decade of trials and tribulations (2010–2020).
- To make matters worse, a global plague strikes (Covid in 2020).
- Adversity forces introspection – and sparks change (self-improvement).
- Through hard work, perseverance and resilience, a more mature, stronger and better performing company emerges – one that is now battle tested.
- Forged in fire, the culture of the company (grounded in integrity and trust) emerges stronger than ever.
- And finally, the hero earns redemption. And re-emerges victorious.

But what makes the Fairfax story even more fascinating is it is not just a story about a company. It is also a story about investors and market psychology (our friend Mr. Market). As such, Fairfax's story is rich in lessons not just for the corporate world but also for investors.

Underfollowed. Misunderstood. Unloved.

(And that's part of the opportunity.)

Back in 2020, at the same time many investors were indiscriminately dumping Fairfax shares, a small group were aggressively buying. These investors – misfits, contrarians, oddballs – saw something others missed.

Who were they?

They congregate at the Corner of Berkshire and Fairfax, an investing forum moderated by Sanjeev Parsad. This community has been dissecting, debating and documenting Fairfax's transformation in real time.

How did they see what others were missing?

"They Looked." *Michael Lewis – The Big Short*

Despite its extraordinary run, Fairfax remains underfollowed, misunderstood, and largely unloved by the broader market—an unusual but attractive setup for long-term investors.

Fairfax's Transformation – Prem Watsa at the 2024 AGM

This post was originally written in April 2024. It was edited in December 2025. While the numbers are now dated (they have gotten better), the message delivered by Prem remains relevant today.

If you want to understand what has happened at Fairfax over the past several years, there is no better guide than its founder and CEO, Prem Watsa. At the April 2024 annual general meeting in Toronto, Prem walked shareholders through one of the most important developments in Fairfax's nearly four decades of history.

He opened with an attention-grabbing statement:

> "The next few (slides) are the most important ones."
>
> "Fairfax… I've said it in our annual report… said it last year… I'll say it again. Fairfax has been transformed since 2017." *Prem Watsa, Fairfax AGM*

That is a bold claim. Naturally, investors might ask whether this is simply an optimistic CEO overselling good news.

Prem addressed that question directly—and surprisingly:

> "Even we couldn't see it. If you had asked me 3 years ago, 4 years ago, I couldn't see that."
>
> *Prem Watsa, Fairfax AGM*

This is a remarkable admission. The many positive developments happening in recent years (number, speed, size, impact) even caught Fairfax's leadership team by surprise. If management didn't fully see it coming, is it any surprise that many investors still don't see it today?

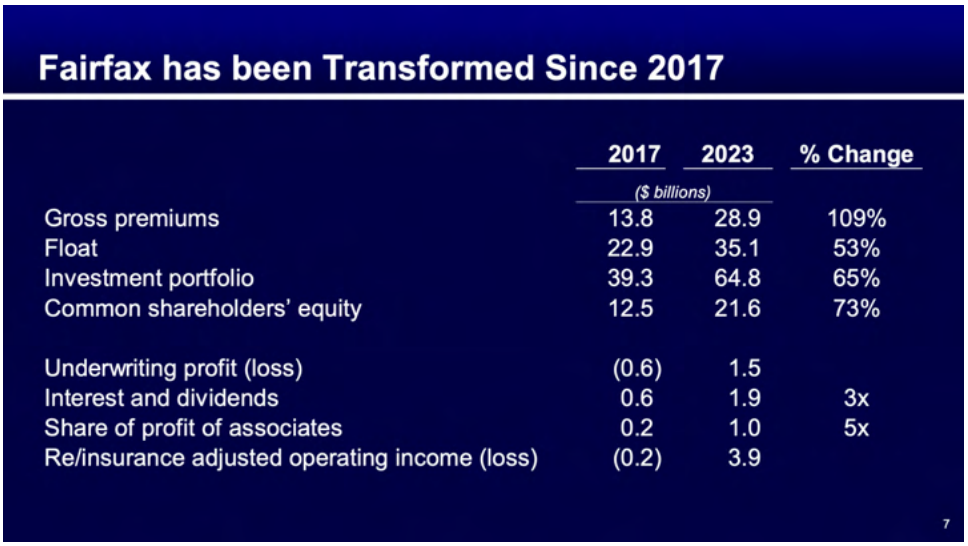
The Metrics Behind the Transformation

Prem then shifted to the evidence. What exactly had changed?

He reviewed the four critical metrics that drive performance and long-term value creation for a P/C insurer:

- Gross premiums written
- Float
- Investment portfolio
- Common shareholders' equity

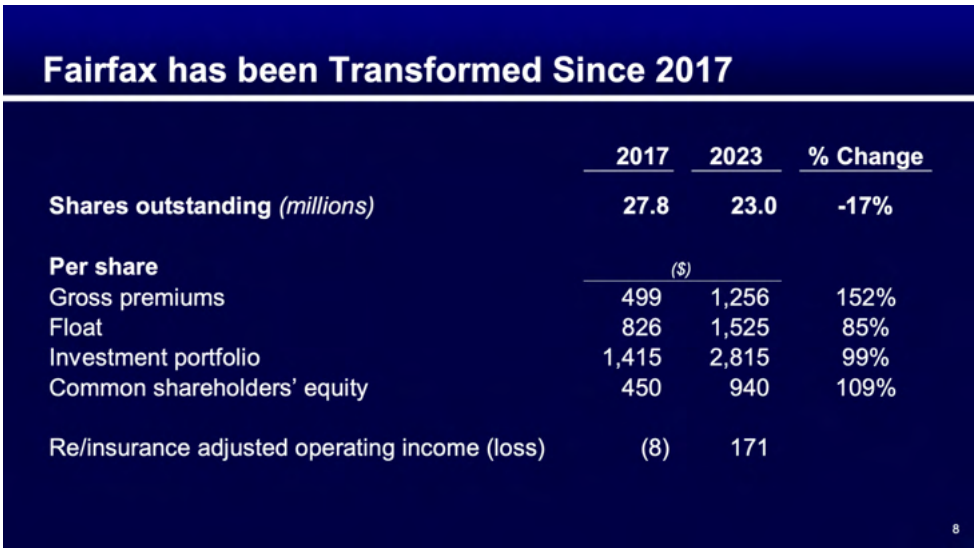
With slide 7, he illustrated how each metric grew sharply between 2017 and 2023. The growth was strong in absolute terms—but the picture became even more compelling when he presented the per-share numbers.



The Power of Per-Share Growth

Slide 8 showed the same metrics on a per-share basis. Because Fairfax reduced its effective share count by 17% over those six years, every metric compounded at a meaningfully faster rate.

This is the part many casual observers miss. Fairfax's significant share repurchases (at very attractive prices) made a good news story much better.



Across all major metrics, Fairfax compounded per-share amounts at low double-digit rates over six years (2017–2023). That is very strong performance.

Fairfax - Growth Rates from 2017 to 2023		
Calculated Per Share	**Total %**	**CAGR**
Gross Premiums	152%	16.6%
Float	85%	10.8%
Investment Portfolio	99%	12.2%
Common Shareholders' Equity	109%	13.1%

What About Earnings?

Strong metrics are great, but investors ultimately care about earnings.

On slide 9, Prem showed what may be the most important evidence of the transformation:

Operating income surged to $4 billion, or $125 per share. This is before any realized or unrealized investment gains.

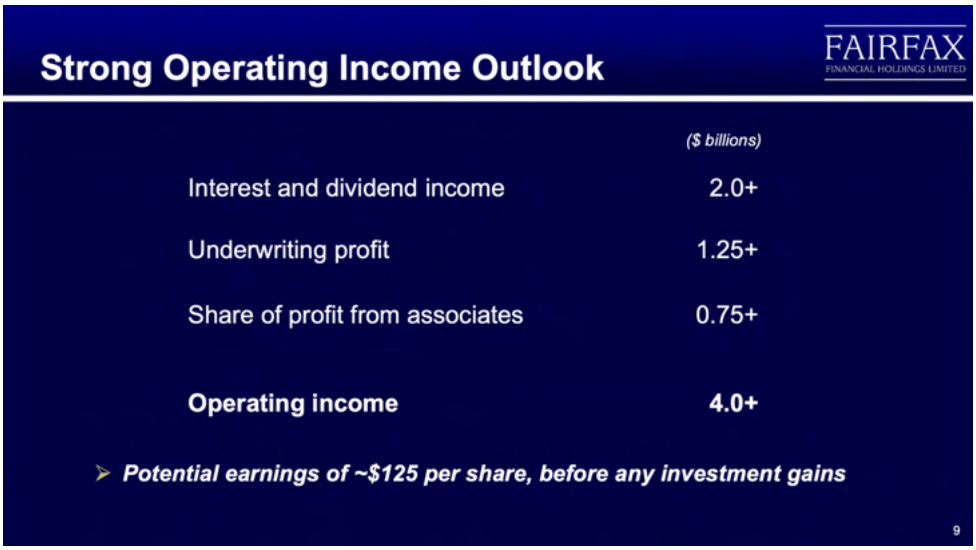
For context: from 2016 to 2021, operating income averaged $1.1 billion.

This represents a 264% increase in only a few years.

Even more importantly, Fairfax believes operating income should continue at roughly $4 billion per year for the next four years—with no guarantees, of course. (This estimate was very conservative.)

This matters because operating income is a high-quality source of earnings. They are more predictable, durable, and repeatable than mark-to-market investment gains. For the first time in its history, the majority of Fairfax's earnings now come from high-quality sources.

That significant change in earnings—both in size and composition—has fundamentally changed the company.



What Does This Mean for Intrinsic Value?

Prem summarized it in plain terms:

> "…because of this transformation, the intrinsic value of the company has gone up significantly and be recognized in the stock market over time."
>
> "Its book value went up 25% last year, went up 100% in 3 years. The stock price has tripled, but we are still selling a little above book value, so we think buying back our stock is a good thing. And we continue to do that." *Prem Watsa, Fairfax AGM-2024*

Fairfax feels the spike in earnings (size and quality) has 'significantly' increased the intrinsic value of the company.

The Re-Emergence of a Wonderful Company

After 6 years of effort, Fairfax has entered the next phase in its evolution as a company. It has entered the "wonderful company" phase. This is an important development for investors – it affects fundamentals, prospects and how the company should be valued.

> "A great company keeps working when you're not. A great company will eventually earn more and more and more while you're just sitting and doing nothing. And a mediocre company won't do that. So you're harnessing a long range force that will help you. It's very important. These mediocre companies, they by and large are going to cause a lot of agony and very modest profits. If you do fine, you've got to sell it and find another one. It's a lot of work. Whereas you just buy one great company, and if you get the right thing at the right price, you just sit there." *Charlie Munger*

Your Best Source of Information on Fairfax

To state the obvious, this document is not your best source of information on Fairfax. Your best source is, of course, the company's web site:

- https://www.fairfax.ca

Below are some links to get you started.

Overview of the Company: PowerPoint Presentation from Fairfax's AGM – April 16, 2026

- https://www.fairfax.ca/wp-content/uploads/2026/04/Fairfax-Financial-AGM-Presentation-2026.pdf

The Year in Review (2025): Prem's Letter from Fairfax's 2025 Annual Report

- https://www.fairfax.ca/wp-content/uploads/2026/03/FFH_Fairfax-Financials-Shareholders-Letter-2025-with-attachments-092704.pdf

Recent Earning Report: 2026 Q1 Interim Report

- https://www.fairfax.ca/wp-content/uploads/2026/04/FFH-2026-Q1-Interim-Report-Final-SrR864b81N.pdf

2025 Annual Report

- https://www.fairfax.ca/wp-content/uploads/2026/03/FFH_Fairfax-Financial-2025-Annual-Report-144860.pdf

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How Big is Fairfax? (at May 8, 2026)

Based on market cap, Fairfax is the 35th largest publicly traded company in Canada.

- https://companiesmarketcap.com/canada/largest-companies-in-canada-by-market-cap/

Based on net income, Fairfax is the 11th most profitable publicly traded company in Canada.

- https://www.financecharts.com/screener/most-profitable-country-ca

An Overview of the Company

The following summary is from Fairfax's web site: https://www.fairfax.ca/about-fairfax/

Fairfax Financial Holdings Limited is a holding company which, through its subsidiaries, is primarily engaged in property and casualty insurance and reinsurance and the associated investment management. Fairfax's corporate objective is to achieve a 15% growth in book value per share over the long term. Fairfax seeks to differentiate itself by combining disciplined underwriting and investing its assets on a value oriented total return basis, believing that this approach will provide above-average returns over the long term.

Fairfax was founded in 1985 by the present Chairman and Chief Executive Officer, Prem Watsa. Prem refinanced a small Canadian insurance company and changed the name to Fairfax Financial, which was derived from the principles of fair and friendly acquisitions, based on the golden rule of 'treating others as we would like to be treated ourselves'.

Through fair and friendly acquisitions, Fairfax has grown into a leading global commercial lines insurance and reinsurance group, compounding book value per share by 18.7%+ annually since 1985, through a dual focus on underwriting profitability and total-return value investing.

Our companies operate on a decentralized basis and are run by the Presidents, except for performance evaluation, succession planning, acquisitions, financing, and investments, which are done by or with Fairfax. The holding company is also responsible for financial reporting requirements, aggregating the total risk across insurance operations and promoting corporate culture throughout our operating companies. Over the last 40 years, Fairfax has written cumulative premiums of $324 billion and has donated more than $570 million since beginning its donation program in 1991.

Since inception, Fairfax has been focused on the long-term view and not on short-term earnings to the benefit of all shareholders.

Fairfax's Transformation – The Spike in High-Quality Earnings

December 8, 2025

There is usually a lag from the time good capital allocation decisions are made to the time those decisions show up in financial results in a meaningful way. The improvements often happen incrementally – slowly building over a couple of years. But eventually good decisions result in higher earnings.

There is a second lag – this time from investors. This is the knowledge/trust factor. For a turnaround play like Fairfax, it can take years for investors to come to understand and trust improving results – the impact of improving fundamentals/earnings on the share price and multiple can be slow. But given enough time, investors eventually figure it out.

The Worm Turns

Investors following the company closely could see Fairfax was making better capital allocation decisions as far back as 2018 and 2019. However, the benefits of those decisions were slow to show up in reported results. Fairfax continued with their strong execution and by 2021 it was possible to see "green shoots" – some income streams started to move higher. But in 2022 all the positive changes that had been happening "under the hood" over the previous 4 years suddenly revealed themselves – operating income spiked higher. By the end of 2023 it was becoming clear that the big increase in operating income was sustainable. And in 2024 investors started to believe/trust what was happening/they were seeing – Fairfax's share price continued its improbable run higher (driven by both earnings and multiple expansion).

The ugly caterpillar had become a beautiful butterfly.

This article reviews Fairfax's dramatic earnings transformation over the past four years through the lens of the five income streams that drive the company's earnings. What are they? How large are they? And how have they changed?

Fairfax's Five Income Streams

Fairfax generates earnings from five distinct sources:

1. **Underwriting profit**
   Generated from the P/C insurance business.

2. **Interest and dividend income**
   Interest from the fixed-income portfolio and dividends from mark-to-market equities.

3. **Share of profit of associates**
   Fairfax's share of pre-tax earnings from associate equities (Eurobank, Poseidon, EXCO and Fairfax India).

4. **Non-insurance consolidated companies (NICC)**
   Pre-tax earnings from controlled businesses (Recipe, Sleep Country, Peak Achievement, Meadow Foods, Thomas Cook India, Grivalia Hospitality, AGT Foods and Dexterra).

5. **Net gains (losses) on investments**
   Unrealized gains from the investment portfolio (stocks, fixed income).
   Realized gains from asset sales and revaluations (including insurance).

Operating Income: The High-Quality Source

Not all income streams carry the same weight with investors. Sources that flow into operating income—underwriting profit, interest and dividend income, share of profit of associates and NICC—are considered high quality. This is because they tend to be more predictable and durable.

Net gains (losses) on investments are considered a low quality source because they are more volatile.

Companies that derive the majority of their earnings from operating income typically trade at higher valuations.

Fairfax did not historically fall into that group. But that has changed.

Part I: Historical Profile (2016–2021)

Total Size:
Fairfax generated an average of $2.47 billion per year across all five income streams.

Growth:
Modest.

Composition:

- Net gains (losses) on investments: 49% (largest single component, by far)
- Operating income: 51% of total

Volatility:
Extremely high. Year-to-year swings averaged $2.3 billion, almost entirely due to changes in net gains (losses) on investments.

In short, Fairfax's total income streams from 2016–2021:

- Grew slowly,
- Were dominated by lower-quality investment gains, and
- Were highly volatile.

	Fairfax - Income Streams							Avg 2016-21	
		2016	2017	2018	2019	2020	2021	Total	Split
1	Underwriting profit - ins & reins.	$576	-$642	$319	$395	$309	$801	$293	12%
2	Interest & dividends	$555	$559	$784	$880	$769	$641	$698	28%
3	Share of profit of associates	$24	$201	$221	$170	-$113	$402	$151	6%
4	Non-insurance consolidated comp	$103	$262	$264	$104	-$139	$71	$111	4%
	Operating income (m)	**$1,258**	**$380**	**$1,587**	**$1,548**	**$826**	**$1,915**	**$1,253**	**51%**
5	Net gains (losses) on investments	-$1,204	$2,458	$194	$1,692	$430	$3,709	$1,213	49%
	Total Income Streams (m)	**$55**	**$2,838**	**$1,781**	**$3,241**	**$1,257**	**$5,624**	**$2,466**	**100%**
	Operating Income Per Share	$54	$14	$58	$58	$32	$80	**$49**	
	Total Income Streams Per Share	$2	$102	$65	$121	$48	$235	**$96**	
	Shares outstanding (Dec 31) m	23.1	27.75	27.2	26.8	26.2	23.9		

And yet, beneath the surface, important (positive) changes were happening at Fairfax as far back as 2018. And each year after. In 2021, these positive developments started to show up in earnings - underwriting profit and share of profit of associates both hit new records.

But this was only the beginning.

Part II: The Breakout Years (2022–2024)

Total Size and Growth:
In 2024, Fairfax generated $6.54 billion from its five income streams—nearly triple the 2016–2021 average of $2.47 billion.

Composition Shift: A New Company Emerges

Operating income now represents 84% of total income streams—an extraordinary shift from the 2016–2021 average of 51%.

- Interest and dividends: 38% (now the largest component, by far)
- Underwriting profit: 27%
- Share of profit of associates: 15%
- Non-insurance consolidated companies: 3%

Net gains (losses) on investments: 16%

Volatility:
Much less. A diversified set of high-quality sources now stabilizes earnings.

In short, in 2024 Fairfax's total income streams:

- Spiked higher,
- Were dominated by high-quality sources, and

- Were much less volatile.

	Fairfax - Income Streams	Avg 2016-21						
		Total	Split	2021	2022	2023	2024	Split
1	Underwriting profit - ins & reins.	$293	12%	$801	$1,105	$1,522	$1,791	27%
2	Interest & dividend income	$698	28%	$641	$962	$1,896	$2,512	38%
3	Share of profit of associates	$151	6%	$402	$1,015	$1,022	$956	15%
4	Non-insurance consolidated comp	$111	4%	$71	$61	$46	$212	3%
	Operating income (m)	**$1,253**	**46%**	**$1,915**	**$3,143**	**$4,487**	**$5,471**	**84%**
5	Net gains (losses) on investments	$1,213	49%	$3,709	-$514	$2,500	$1,067	16%
	Total Income Streams (m)	**$2,466**	**96%**	**$5,624**	**$2,629**	**$6,987**	**$6,538**	**100%**
								Change
	Operating Income Per Share	$49		$80	$135	$195	$252	415%
	Total Income Streams Per Share	$96		$235	$113	$304	$301	214%
	Effective Shares outstanding (Dec 31) m			23.9	23.3	23	21.7	

A Closer Look at Operating Income

This is where the transformation becomes most apparent.

From 2016–2021, operating income averaged $1.125 billion per year, or $49/share.

Then the climb began:

- 2022: $3.1 billion ($135/share) — triple the historical average
- 2023: $4.5 billion ($195/share) — quadruple
- 2024: $5.5 billion ($252/share) — quintuple

The ascent has been almost vertical—like a mountain goat scaling a cliff.

Why It Matters

Multiple high-quality income sources:

- Diversify Fairfax across both insurance and investments
- Increase resilience through insurance and economic cycles
- Produce consistent cash flows
- Enable opportunistic and value-accretive capital allocation

This is the essence of durable earnings power.

Conclusion: Two Stories, One Transformation

Two stories are playing out at the same time:

1. Earnings are surging — moving far beyond historical norms.
2. Earnings quality has improved dramatically — the majority now comes from stable, recurring sources.

Both the size and quality of earnings appear durable. This is not a one-time spike. It is a structural shift.

Fairfax is becoming a fundamentally different—and significantly stronger—company.

In our next post, we will explore the underlying drivers of the surge in operating income.

What happened? The Flywheel Effect

December 9, 2025

When you study companies that make the leap from merely good outcomes to truly great results, one pattern emerges again and again: transformation never occurs through a single defining action. There is no miracle moment, no grand program, no solitary stroke of luck. Rather, greatness emerges from a long series of disciplined decisions—each one pushing a giant flywheel one turn at a time—until the accumulated momentum becomes unstoppable.

Fairfax is a vivid illustration of this phenomenon.

Over the past six years, the company has undergone a striking transformation. High-quality earnings have accelerated far beyond anything in its prior history. But to understand *why*, one must step back and look at the underlying mechanism—an interplay of internal discipline, external forces, and deliberate action executed consistently over time. Only then does the pattern become clear. Only then does the flywheel reveal itself.

The Three Forces That Set the Flywheel in Motion

1. Internal Discipline

Insurance: improving quality of each of the businesses (underwriting results)
Investments:

- Stop doing stupid things: exit equity hedges & individual shorts
- Equities: improve value investing framework (for new purchases)
    - Correct past mistakes
    - Optimize results at keepers

These were not headline-grabbing actions. But they were very important.

2. External Conditions

Insurance: hard market started in Q4, 2019
Investments: shift from zero interest rates to a high-rate environment

Each of these factors created opportunities—for those prepared to act with discipline.

3. Extreme Market Volatility (an underappreciated advantage)

- Bear markets in stocks in 2020 and 2022.
    - Including Fairfax's own stock, which fell to a 10 year low in 2020.
- Historic bear market in bonds beginning in 2022.

Volatility presents more wonderful opportunities for companies who are prepared.

When you line up these forces—internal discipline, external conditions, and market volatility—something profound happened. Fairfax translated circumstance into advantage, advantage into momentum, and momentum into structural change.

Why Earnings Suddenly Spiked

To the outside observer, Fairfax's surge in earnings over the past four years might look like a sudden leap. But those who understand the flywheel concept know better. The breakthrough is always preceded by long periods of quiet, cumulative force.

Inside Fairfax, every part of the enterprise—senior leadership, insurance operating companies, Hamblin Watsa, and the CEOs of major equity holdings—spent years pushing the flywheel in the same direction. They made conscious choices, corrected course when needed, and relentlessly reinforced what worked.

They stopped doing the things that held the company back.
They strengthened the things that produced results.
And they recommitted to the timeless disciplines of insurance and value investing.

The spike in operating earnings is not the result of luck, nor primarily of circumstance. It is the visible outcome of years of effort building invisible momentum.

A New Phase: Compounding and Time

Today, Fairfax stands at an inflection point. Its high-quality earnings base—now measured in billions—is large enough to self-fuel its future. With each passing year, more capital is reinvested into attractive opportunities. More seeds are planted across insurance and investments. More cash flow reinforces the next turn of the flywheel.

This is how companies move from good to great. Not through a single breakthrough, but through cumulative force reaching a critical threshold.

To an outsider, the transformation looks magical. To the insider pushing the flywheel, it feels inevitable.

Jim Collins, in his book *Good to Great*, has a concept called "the flywheel effect" that describes very well what has been happening under the hood at Fairfax for the past 5 or 6 years that has got the company to where it is today.

> "The Flywheel effect is a concept developed in the book Good to Great. No matter how dramatic the end result, good-to-great transformations never happen in one fell swoop. In building a great company, there is no single defining action, no grand program, no one killer innovation, no solitary lucky break, no miracle moment. Rather, the process resembles relentlessly pushing a giant, heavy flywheel, turn upon turn, building momentum until a point of breakthrough, and beyond."
>
> https://www.jimcollins.com/concepts/the-flywheel.html

The Flywheel in Action

Two Economic Engines Working in Reinforcing Loops

To see the flywheel clearly, we must break Fairfax's actions into its two economic engines:

1. **P/C Insurance**
2. **Investments—both fixed income and equities**

Each engine produced force independently. Together, they produced momentum. And when momentum reached critical mass, the breakthrough occurred.

Engine 1: P/C Insurance — Build and Improve

Turn 1: 2015–2017
Global expansion through acquisition (Allied World, Brit, International). Increased scale.

Turn 2: 2017
A disciplined strategic pivot in India.

- Sold ICICI Lombard for a $950M gain.
- Seeded Digit for $154M—now worth more than $2B.

Turn 3: 2019–present
Organic growth fueled by a historic hard market.

Turn 4: 2022
Increased Allied World ownership from 70.9% to 82.9%.

Turn 5: 2023–2024
Increased Gulf Insurance Group ownership from 44% to 97%, securing control position and leadership in Middle East North Africa (MENA) region.

Turn 6: Ongoing
Under Andy Barnard, disciplined operational improvement, producing much better combined ratios.

Result:
- NPW: Tripled from $8.1B (2016) → $25.3B (2024)
- Combined ratio: 98.2% (avg 2016–2020) → 93.9% (avg 2021–2024)

Underwriting profit delivered $191M (avg 2016–2020)
Then $801M (2021), $1.1B (2022), $1.5B (2023), and $1.8B (2024)

Each turn added force. Together, they created a much higher, sustainable level of underwriting profitability.

Engine 2: Fixed Income — Exercising Discipline in Duration and Yield

Turn 7: December 2021
Reduced duration to 1.2 years. Sold $5.2B in corporate bonds (yield of 1%) and generated a realized gain of $253M. Avoided billions in unrealized losses on $40B portfolio when rates rose in 2022 and 2023. Protected the balance sheet.

Turn 8: December 2024
Extended duration to 3.3 years, locking in ~$2.5B in annual interest income.

Turn 9: 2020 & 2023
Real estate debt platform partnership with Kennedy Wilson (including PacWest purchase). $4B portfolio is delivering an average total return of about 8% ($320M) mostly in interest income.

Result
The fixed-income portfolio:
- Size doubled from $20.3B (2016) to $46.5B (2024)
- Yield doubled from 2.6% (avg 2016–2022) to ~5.0% (2024)

Interest income contributed $709M (avg 2016–2021)
Then $962M (2022), $1.9B (2023), and $2.5B (2024)

When portfolio size doubles and yield doubles, the flywheel accelerates.

Engine 2: Equities — Removing Drags, Adding Force

Turn 10: late 2016
Ended equity hedge position.

Turn 11: late 2020
Closed out final short position,

Ending these two programs effectively eliminated $494M annual expense (avg 2010–2020). Communicated to shareholders they have learned their lesson – will no longer short indices or individual stocks.

In about 2018, Fairfax improved their investment framework for equities. Put more of a premium on management, balance sheet and profitability – higher quality.

Turn 12: since 2018
Hitting the ball out of the park with new equity purchases (Poseidon/Seaspan, Stelco, Metlen, Orla).

Turn 13: Since 2018
Been fixing the many underperforming equity holdings purchased from 2014-2017 (sale, merger with stronger player, take private, restructuring).

These holding were burning about $200 million per year in cash (losses, write downs, restructuring charges). Now they are all largely fixed and delivering solid results. Another large annual expense has been eliminated (a headwind has become a tailwind).

Turn 14: 2020 & 2022
Took advantage of bear markets in stocks by significantly adding to many of the equity holdings they already owned.

Turn 15: late 2020/early 2021
Initiated total return swaps on 1.96M FFH shares at $373, generating ~$2B in gains (to Dec 31, 2024) before carrying costs.

The quality of the equity portfolio has never been better than it is today. It is performing exceptionally well, with Eurobank being the star (it has become Fairfax's Greek freak).

Result
Associates contributed $151M per year (avg 2016–2021)
Then $1.0B (2022), $1.0B (2023), and $956M (2024)

Asset Sales — Opportunistic & Strategic Pruning to Reinforce Strength

Turn 16: 2020/2021
Riverstone UK (runoff business) for $1.3B (plus $230M CVI).

Turn 17: 2022

Pet insurance business for $1.3B. Delivered $1B after-tax gain.

Turn 18: 2022
Resolute Forest Products for $626M (plus $183M CVR) at the top of the lumber cycle.

Turn 19: 2023
Ambridge Partners for $379M (plus $100M performance target). Delivered $259M pre-tax gain.

Turn 20: 2024
Stelco was sold to Cleveland Cliffs for a premium price. Over its 6-year holding period, delivered a total return of about $544M pre-tax. CAGR of 25%.

Asset sales (insurance and investments) have always been an important part of the capital allocation framework at Fairfax and have delivered significant value to shareholders over the years.

Share Buybacks — Accelerating the Per-Share Flywheel

Turn 21: 2021
Dutch auction (2M shares at $500).

Turn 22: 2017 – 2024
NCIB (additional 4.08M shares).

Effective shares outstanding at Fairfax peaked at 27.75 million in 2017. Since that time Fairfax has reduced shares outstanding by 6.08 million or 22%.

Shares were repurchased at an average price of about $637/share. Fairfax's book value was $1,204 at September 30, 2025. Its share price was $1,750 at December 9, 2025. Shares were repurchased significantly below their intrinsic value amplifying each turn of the flywheel.

Conclusion: Breakthrough

Across insurance, fixed income, equities, asset sales, and share buybacks, Fairfax executed 22 significant actions. Many delivered over $1 billion in value individually. Each on its own is an impressive accomplishment. But when you put them all together – stack them one on top of the other – well, that is simply an amazing collection of accomplishments.

There is no one thing (action, event or piece of luck) that is driving the spike in Fairfax's earnings. Rather, it is the cumulation of years of hard work – across all part of the organization (insurance and investments). But it is only now that the impact of these many actions is becoming more fully visible to outsiders - because now they are "all of a sudden" showing up in much better business results and higher earnings.

It clearly demonstrates the huge impact active management – when done well – can have on the business results and intrinsic value of a company. The flywheel has achieved breakthrough velocity. And Fairfax as a company has made the leap from good to great.

What is Fairfax's Secret Sauce? Does it Have a Moat?

December 10, 2025

Fairfax has compounded book value per share (BVPS) at 18.7% annually for 39 years. Its share price has compounded at 19.2% (in US$, including dividends). Importantly, Fairfax's results over the past four years have also been excellent. It is not a statistical anomaly or a relic of the distant past.

Relative to all U.S.-listed companies since 1985, Fairfax's compound return places it in the top 1%. According to Fairfax, the numeric ranking is #8—a remarkable fact by any standard. Bottom line, Fairfax's performance over the past 39 years has been epic.

All slides referenced are from Prem Watsa's AGM presentation on April 10, 2025:

https://www.fairfax.ca/wp-content/uploads/2025/04/Fairfax_AGM_2025.pdf

This track record raises 3 important questions:

1. What drove Fairfax's exceptional performance over 39 years?
2. Are the drivers still in place today?
3. What does this imply for Fairfax's future performance?

Let's start with question one.

What Caused Fairfax's Long-Term Outperformance?

Was it skill?
Luck?
Being in the right place at the right time?

Timeframe is the key to answering this question.

If Fairfax's strong performance had happened over a short time period (like 5 or 10 years) then perhaps we could attribute it primarily to luck. But a CAGR of more than 19% for 39 years? That level of outperformance over that timeframe can't be attributed to luck. The timeframe is too long.

Does Fairfax have a moat?

(A moat refers to sustainable competitive advantages that a company has that allows it to ward off the competition while continuing to grow its business and profitability over time.)

Most investors would quickly answer "no."

Why?

Well, when it comes to Fairfax most everyone *knows* 2 things:

- Insurance is a commodity. And Fairfax is not very good at insurance. Average at best.
- And Fairfax is not very good at investments. They keep messing up. "Cowboys" might be a good way to describe them.

But if it's not luck and it's not skill, how did Fairfax produce one of the best compounding records in the world?

I think Mark Twain might have the answer:

> "It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so." *Mark Twain*

The obvious answer is that Fairfax does indeed have a number of competitive advantages.

And like the pieces of a puzzle, when put together these competitive advantages provide investors with a picture of Fairfax's moat. Importantly, in recent years, Fairfax's competitive advantages have been getting stronger – the moat has been growing deeper and wider.

The fact that most investors don't know what Fairfax's competitive advantages are doesn't mean they don't exist. Instead, it provides great insight into how misunderstood Fairfax continues to be. And if the company is this misunderstood, do you think it is fairly valued? No, probably not.

So, as painful as this might be for some, let's explore this further.

The Six Ingredients of Fairfax's "Secret Sauce"

I group them into six categories:

1. Founder-Led Company – Prem Watsa
2. Family Control Enables Long-Term Focus
3. Organizational Structure: Centralized Capital Allocation, Decentralized Operations
4. P/C Insurance Model – Low-Cost, Growing Float
5. Investment Management – Unconstrained Capital Allocation
6. Culture – The Invisible Hand That Guides – The Straw That Stirs the Drink

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1. Founder-Led Leadership: Prem Watsa

Prem founded Fairfax in 1985 and has led it ever since. From scratch, he has built Fairfax into:

- One of Canada's largest and most profitable public companies.
- A giant global insurance company.

It really is a remarkable achievement. Importantly, he is still at the helm, guiding the company.

He is (still) an exceptional leader. This was on full display during Covid.
He is high integrity – with both internal and external stakeholders.

What are his greatest strengths?

I see two:

The ability to attract and retain talent (at both insurance and investment operations). That was true 39 years ago when he started the company. It is equally true today.

And temperament – the ability to think clearly when others are losing their heads. This is especially valuable with the investment management side of the business (and being able to exploit volatility).

His age (75) is a concern (he was born in August of 1950). However, his health (physical and mental) appears very good.

Prem is a competitive advantage for Fairfax. Yes, Prem's health is something to monitor. But it is not something I worry about today.

Importantly, Prem has started to transfer some responsibilities to the next generation of leaders. Fairfax takes succession planning very seriously – the company has a deep bench of talent.

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2. Family Control Enables Long-Term Thinking

Prem owns/controls ~2 million shares (9.5% economic interest) and exercises control over ~43.3% of the company through multiple-voting shares. Bottom line, Prem is firmly in control of Fairfax.

What about when Prem is no longer around?

Prem's control position will pass to the Watsa family, with instructions that it not be sold. Prem's son Ben will become Chairman.

This provides certainty for Fairfax and its shareholders – Fairfax will remain a family-controlled business after Prem has passed. This is important for reasons we will explore next.

Comments from Prem about family control from Fairfax's 2024AR.

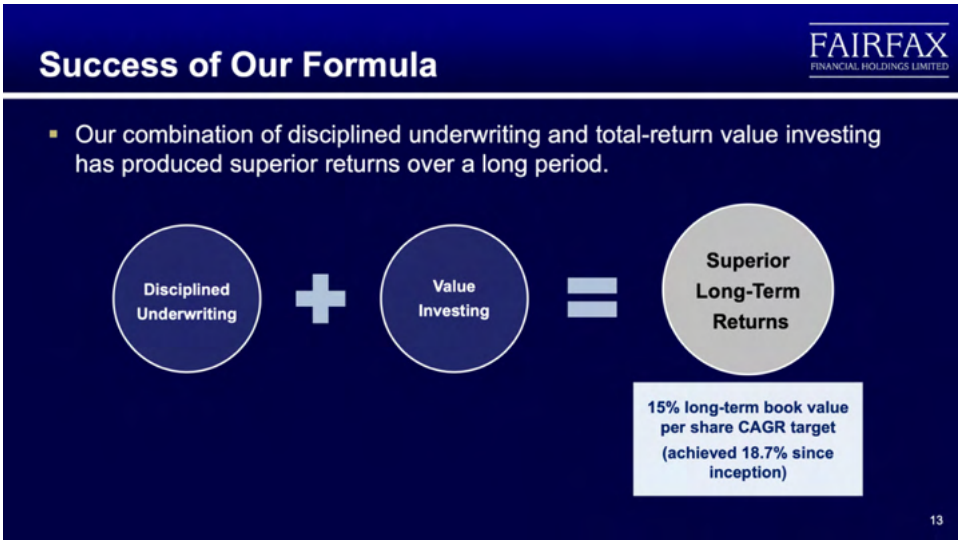
> "As I said last year, Fairfax is being built to last for the next 100 years, long after I have gone. For the last 39 years, I have mentioned to you many times that you have a major negative; Fairfax is not for sale at any price! So there will be no takeover bonanza! I consider myself and my family as stewards not owners. So I have set up my affairs so that my control position will not be sold even after I pass, but will remain with my family and not be sold. Fairfax will also be professionally run, with succession always being internal! My son, Ben, will become Chairman after me."
>
> *Prem Watsa – Fairfax 2024AR*

Why does this matter?

Because long-term control drives long term behavior.

- **Insurance:** allows for the optimal management of the insurance cycle. Importantly, it supports the discipline to walk away from unprofitable business in a soft market (that might last for years).
- **Investments:** allows for the investment in assets that will deliver the highest total return over the long term (like equities) – despite the higher volatility this will cause in the short term. This provides Fairfax with a structural return advantage with its investment portfolio when compared to traditional P/C insurers who invest primarily in bonds.
- **Volatility:** allows Fairfax to be opportunistic with both insurance and investments – to accept, ride out and exploit short term volatility – which enhances returns over time.

Being family controlled allows Fairfax to be laser focussed on building per share value for shareholders over the long term. This is an enormous structural advantage.



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3. Organizational Structure: Centralized Capital Allocation, Decentralized Operations

Fairfax operates with:

A Lean Head Office

- Handles capital allocation and succession planning
- Low overhead
- Of note, Prem's annual salary of C$600,000 (with no stock options) is crazy low.

Decentralized Operations

- Insurance subsidiaries are run by their own presidents
- Non-insurance companies are run by their CEOs

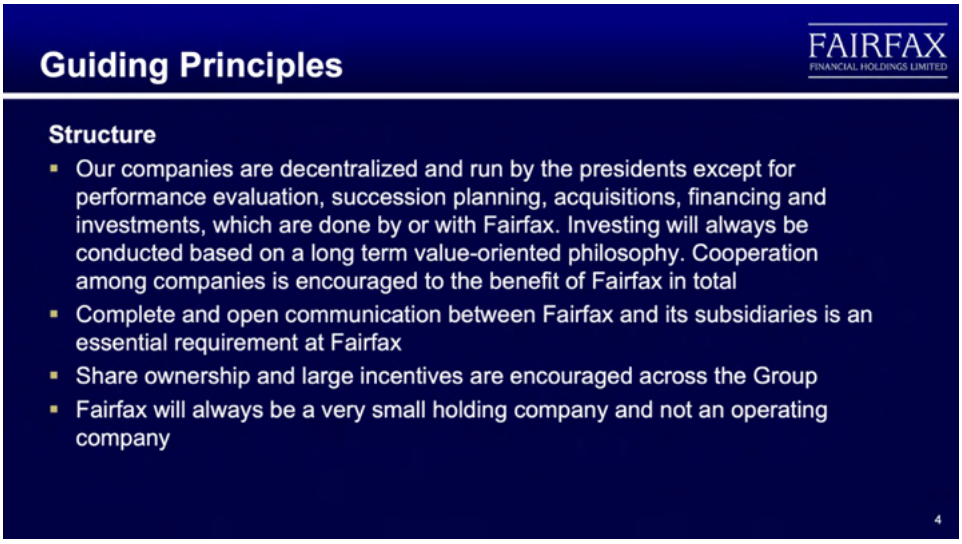
Adapted to their own circumstances, Fairfax has built an organizational structure that is similar to the one used by Berkshire Hathaway. It is very entrepreneurial. With excess capital going to the best available opportunity across the entire company.

Insurance – Think and Act Like an Owner

Below are comments from Prem's letter from Fairfax's 2024AR.

"We have over 250 profit centres across our group. Each profit centre is focused on a unique set of customers, geographies or products that benefit from market leadership, product knowledge and the ability to provide excellent customer service. These profit centres facilitate transparency, enabling Andy Barnard, Brian Young and Peter Clarke to effectively monitor the insurance operations. Empowerment thrives at Fairfax. We are always working on making our companies more indispensable to our customers." *Prem Watsa – Fairfax 2024AR*

The two slides below summarize Fairfax's structure and the benefits of its decentralized operating structure.



4. The Insurance Engine: Low-Cost, Growing Float

What is P/C insurance float?

Float is the money (premiums) that has been collected that has not been paid out in claims. Float is technically a liability. So, it is leverage – it is a way for a company to boost returns for shareholders. Warren Buffett has said repeatedly that P/C insurance (float) is the engine that fuelled Berkshire Hathaway's incredible growth in the 1980's and 1990's.

Size
At year-end 2024, Fairfax had float of $36.9 billion. For perspective, common shareholders' equity was $23.0 billion. Float is much larger than shareholders' equity (1.6 x the size).

Cost
The cost of float is determined by the combined ratio (CR).

- A CR of 100% means the cost of float is at breakeven – it has no cost.
- A CR of 105% means the float has a cost of about 5%.
- A CR of 95% means the float has a benefit of about 5% (negative-cost).

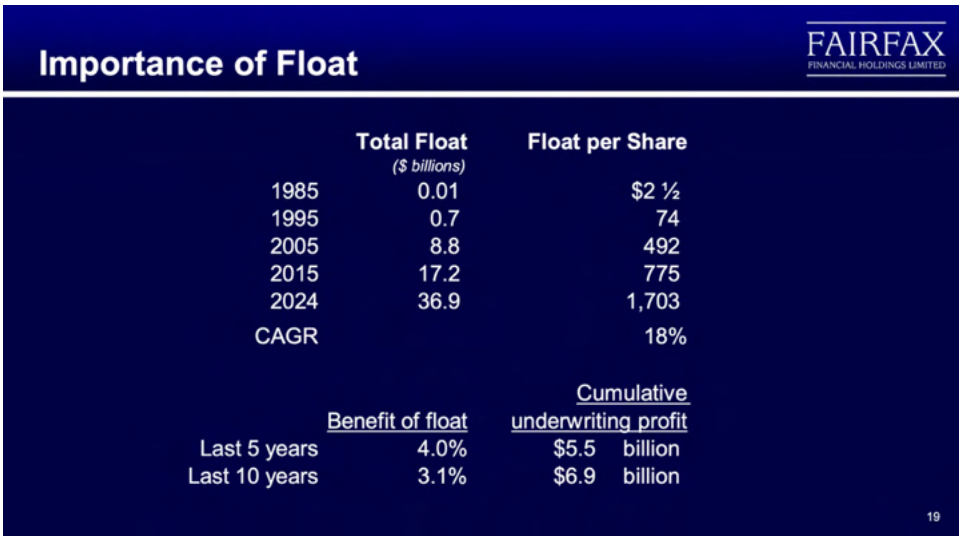
Over the past 5 years, Fairfax's average CR has been 96%. Their "cost" of float has been an average benefit of 4.0% per year (they have been paid 4% per year to hold their float). Yes, that is crazy.

Growth
Float per share has grown at a CAGR of 18% over the past 39 years. Of course, growth will not continue at this rate. But float per share should grow at an above average rate in the coming years.

Rate of Return
Fairfax is able to invest its float and keep the return they generate. In 2024, Fairfax generated a total return on its investment portfolio of about 7.8%. It is tracking to earn about 10.5% in 2025. Moving forward, a reasonable "normalized" estimate is probably 8%.

Summary
Fairfax has a very large, low cost (negative) and growing pile of money (float) that is also generating a return of about 8%. Yes, Warren Buffett is a very smart guy. (So is Fairfax.)

The slide below summarizes the importance of float.



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5. The Investment Engine: Unconstrained Capital Allocation

Most insurance companies invest almost entirely in bonds. That keeps volatility low—but returns low as well.

Fairfax is much more open minded with how it invests. Over the past 39 years, they have built out a diverse set of internal capabilities and external partnerships which allows them to capitalize on a vast array of opportunities:

- Credit (public and private)
- Equities (public and private)
- Private companies
- Venture capital (startups)
- Distressed opportunities
- Special situations
- Global reach

That flexibility is unusual. It requires the freedom to accept short-term volatility in exchange for long-term gain. Fairfax has that freedom. And it uses it.

Compared to peers, this approach allows the company to earn a higher return on its investment portfolio. Compounding and time magnify the benefit. This is a structural advantage for Fairfax.

The slide below provides an overview of the investment team at Fairfax – note the long tenure of most of the people.

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6. Culture – The Invisible Hand That Guides – The Straw That Stirs the Drink

> 'Culture eats strategy for breakfast.' *Peter Drucker*

What does this mean?

> "…no matter how great your business strategy is, your plan will fail without a company culture that encourages people to implement it." *Corporate Governance Institute*

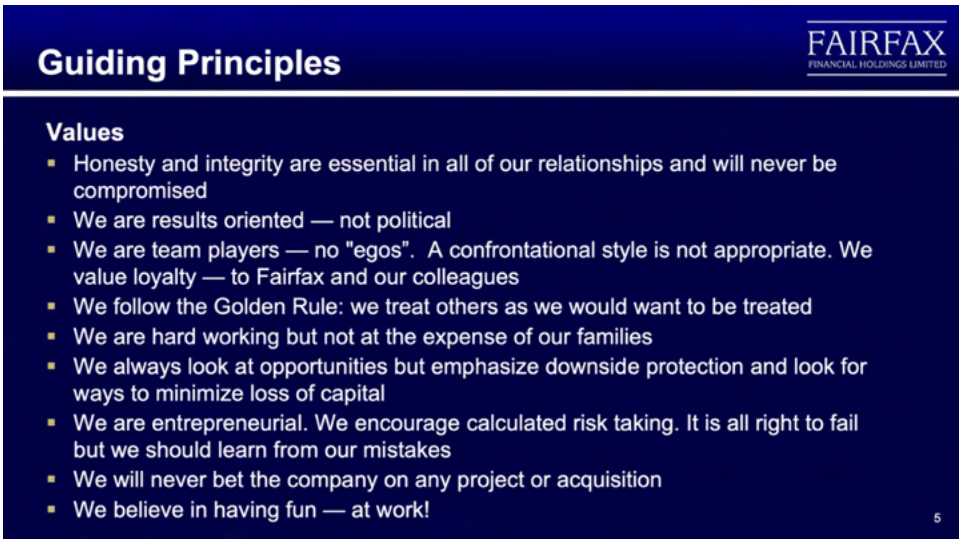
For successful organizations culture and strategy are two sides of the same coin - they are aligned with each other.

Fairfax has a very strong culture. And it is aligned with its strategy. It has been carefully honed over the past 39 years. It has been forged in the fires of adversity. Its biggest champion has been Prem.

A couple of examples:

- Insurance: What to do in a soft market? Write less business. Even at the expense of short-term results (lower top line). Even if it persists for years. Zenith is a good example of this today.
- Investments: What to do when volatility hits? Do the opposite of what Mr. Market is likely doing. Don't panic. Look for bargains. Get creative. Exploit the situation. In recent years, Fairfax is littered with great examples of doing exactly this.

The fact that Fairfax has had very little turnover suggests that its culture is aligned with the values/beliefs of its employees.



Conclusion: Fairfax's Moat—A Company Built to Endure

Fairfax's extraordinary 39-year record—18.7% annual growth in BVPS and 19.2% annual growth in share price—is the product of a system built deliberately, refined continuously, and reinforced through multiple decades of disciplined execution.

Fairfax's "secret sauce" is made from the following six ingredients:

1. Founder-Led Company – Prem Watsa
2. Family Control Enables Long-Term Focus
3. Organizational Structure: Centralized Capital Allocation, Decentralized Operations
4. P/C Insurance Model – Low-Cost, Growing Float
5. Investment Management – Unconstrained Capital Allocation
6. Culture – The Invisible Hand That Guides – The Straw That Stirs the Drink

The real genius of Fairfax lies not in any single advantage, but in how these advantages interlock. Over decades, the company has refined each component and woven them into a moat that is both deep and wide—one that protects the company and compounds its strength over time.

Importantly, Fairfax continues to improve – the moat is growing in size. This can be seen in the exceptional results the company has delivered over the past 5 years. And its prospects have never looked better.

Fairfax today is stronger, more focused, and more resilient than ever. Its competitive advantages are deepening, not narrowing. And that is why it will be exceedingly difficult for any competitor to replicate what Fairfax has built.

What Are Some of the Risks of Investing in Fairfax?

December 11, 2025

The best source for information on the risks of investing in Fairfax is, of course, the company itself. Start with the 2024 Annual Report (page 201) where Fairfax discusses risk management in detail.

https://www.fairfax.ca/wp-content/uploads/2025/03/Fairfax-Financial-2024-Annual-Report.pdf

I have spilt a lot of digital ink writing about what I like about Fairfax. Does that mean I am ignoring the risks? No, of course not. In this post, I will flip the script and write about a few of the risks of investing in Fairfax.

For starters, there are the usual run-of-the-mill risks:

- Will this be another bad year for catastrophes?
- Is the hard market ending?
- Is a severe recession coming?

These risks are important but out of Fairfax's control. With this post, I want to discuss the risks that are more specific to Fairfax - and firmly in management's control.

What are the risks of investing in Fairfax?

Below I list six. Of course, there are more. But these are the watchouts that come to mind for me.

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1. Can management be trusted?

"It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently." *Warren Buffett*

2010-2020 was largely a lost decade for Fairfax shareholders.

Fairfax shredded its reputation not in 5 minutes but over a 10 year period. For Fairfax shareholders, the period felt like death by a thousand cuts.

What happened? The short answers: Bad decisions. Poor communication. Terrible business results. Not a great combination. Long-term shareholders capitulated in May of 2020, and the stock dropped to US$230. Yes, Covid was partly to blame. But only partly.

To Fairfax's credit, something clearly changed around 2018. Decision-making improved. Communication improved. Results improved. And the stock now sits at record highs.

Does that mean the trust issue is behind us? No. Trust can only be re-built with time (and we need more). So, we will see.

PS: Trust is the core building block of a strong relationship. If Fairfax wants long-term shareholders, then they need to do their part – and be a trustworthy partner.

The next two risks fall under the 'capital allocation' bucket:

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2. Will There Be Another "Equity Hedge/Short" Type Decision?

This is the big one for me. This one decision cost Fairfax shareholders a total of $5.4 billion from 2010 to 2020. That is an average of $494 million per year for eleven consecutive years. Most losses occurred from 2010 to 2016. However, in one last slap to the face of investors, Fairfax delivered a final loss of $529 million in 2020. (Yes, how could a "hedge" lose that much money in the bear market of 2020?)

Fairfax has said many times over the past few years that the "equity hedge/short" position was a mistake. Further, they have said they will no longer short individual stocks or market indices. This was the key driver of underperformance at Fairfax from 2010-2020. We know this specific mistake has been fixed and will not be repeated in the future.

But does Fairfax make another big bet that sets them back 5 (or more) years? I do not see one today – but my eyes are wide open.

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3. Do They Make Another String of Bad Equity Investments?

Fairfax's equity picks from 2014-2017 were mostly terrible. By my count, roughly ten different purchases from that period ultimately resulted in losses totalling about $1.5 billion from 2015-2022, or roughly $200 million per year.

The good news? As we said earlier, something changed in about 2018. Equity purchases since then have been very good. As well, the equities purchased from 2014-2017 - that were under-performing - have largely been fixed and are now performing well.

At present, this is not an area of concern for me. But I still monitor each large equity purchase closely.

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4. Financial Leverage - The Rise in Net in Debt

Fairfax is comfortable using leverage to boost shareholder returns. Over the past five years, net debt has increased 52%, while common shareholders equity has grown 76%.

Fairfax	December 31		Increase	
US$ B	2024	2019	$	%
Net debt *	$6.4	$4.2	$2.2	52%
Common shareholders' equity	$23.0	$13.0	$9.9	76%

Net debt * - excludes the debt of consolidated non-insurance companies

I don't see the current amount of debt as a problem. Operating earnings have spiked higher, greatly improving Fairfax's financial profile. Ratings agencies have noticed – most have upgraded Fairfax's credit ratings (and those of its insurance subs) twice in recent years.

Debt levels are something to monitor.

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5. Corporate Governance in a Family–Controlled Company

Fairfax is a founder–controlled company. Prem has a 9.5% economic interest and 43.3% voting interest. Two of Prem's children currently serve as directors.

When performance is strong, family control tends not to matter. When performance is weak (especially if it persists for years), it can become a big issue. Minority shareholders have limited recourse if they are unhappy with management.

It is what it is.

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6. Reserving Quality in the Insurance Operations

Fairfax's business model has changed dramatically since the company was founded in 1985. For the first 20 years, it was kind of like "make a bunch of money investing float and lose a little on underwriting". The insurance part of the business model is what has changed the most over the years. The model then shifted to something like "break even on underwriting". And for the past 15 years the model appears to have shifted again, this time to "make money on underwriting".

Andy Barnard was put into his leadership role of overseeing the insurance operations in 2011 and has done a solid job of improving the quality of the group. This can be seen in steadily improving underwriting results – Fairfax is now delivering a company-wide CR of about 94%, which is very good.

How good are the insurance operations? I suspect they might be higher quality than most investors think. And if so, this would provide a meaningful tailwind to future earnings and multiple expansion.

Reserving at Fairfax is sometimes brought up as an "issue", usually from anonymous posters on social media. Of course, they do not provide any facts (perhaps links to 20 year-old articles when some issues existed). It reminds me a little of the search for the Sasquatch. Yes, this mythical creature could be real. But like Bigfoot, Fairfax would have to be exceptionally good at hiding things. So, keep your eyes peeled next time you go for a walk in the forest…

Final Thoughts

Investing is risky. So, it is important to be thoughtful about the risks.

But it is also important to be rational. Fairfax is not the same company it was from 2010–2020. Much has improved – underwriting, investments, communication, culture, financial performance.

When it comes to risk assessment, Fairfax needs to be evaluated for the company it is now, not the company it used to be.

Valuation – Fairfax, PC Insurance Peers and Margin of Safety

January 5, 2026

> "The three most important words in investing are margin of safety." *Warren Buffett*

Introduction: Margin of Safety in Practice

Ben Graham introduced margin of safety as the central concept of investing in *The Intelligent Investor*. The idea is simple but powerful: buy stocks at a meaningful discount to intrinsic value – buy something for $0.50 that is worth $1.00. Doing so limits downside risk if you are wrong and provides substantial upside if you are right.

A great deal has happened at Fairfax Financial over the past five years. The stock has performed exceptionally well, raising an obvious question for investors:

After such a strong run, is Fairfax now expensive? Or is the market still undervaluing the company?

To answer this, we step back and apply traditional P/C insurance valuation tools using a relative valuation framework, comparing Fairfax to a group of high-quality peers.

Methodology and Peer Group

Valuation Approach: Relative Valuation

There are many ways to value a company. In this analysis, we use relative valuation – comparing Fairfax to comparable P/C insurance companies – to address three core questions:

1. How have these companies performed?
2. How are they being valued today?
3. Does valuation align with performance?

Peer Group

We compare Fairfax against the following P/C insurers (alphabetical order):

- Berkshire Hathaway (BRK) – Historical gold standard; now a diversified conglomerate
- Chubb (CB) – Large, global, traditional insurer
- Intact Financial (IFC.TO) – Largest P/C insurer in Canada; expanding globally
- Markel (MKL) – "Baby Berkshire"; U.S.-focused
- Travelers (TRV) – Large U.S. insurer; DJIA component
- W.R. Berkley (WRB) – High-quality U.S. insurer

Each company has a distinct business model. Accordingly, this analysis remains high-level and focuses on metrics most relevant to P/C insurers.

Measuring Performance: A Six-Year View

Buffett has often suggested that five years is a reasonable timeframe for evaluating management performance. We extend the window slightly to six years – starting December 31, 2019 – to avoid distortions caused by Covid-related volatility.

Performance Metrics Used

- Change in Book Value Per Share (BVPS)
- Total Shareholder Return (share price appreciation + dividends)

Performance Analysis

1. Change in Book Value: 5.75-Year View (Dec 31, 2019–Sept 30, 2025)

Book value growth has long been a core metric for evaluating P/C insurers.

Results:

- Fairfax ranks #1 among peers
- BVPS growth: +148%
- CAGR: 17.1%

Fairfax's outperformance is material. There is a wide divergence of results across the peer group, with Chubb (7.2% CAGR) and Travelers (5.9% CAGR) at the bottom of the range.

P/C Insurance Peers - Comparing Performance - Change in BVPS					
5.75-Year (Dec 31, 2019 to Sept 30, 2025)					
	Sept 30	Dec 31	Book Value Per Share		
	2025	2019	Increase	%	CAGR
Fairfax	$1,204	$486	$718	148%	17.1%
Intact Fin (C$)	$103.16	$53.97	$49	91%	11.9%
Berkshire B	$324	$174	$150	86%	11.4%
Markel	$1,429	$803	$627	78%	10.5%
WR Berkley (1)	$25.79	$14.72	$11	75%	10.2%
Chubb	$182	$122	$60	49%	7.2%
Travelers	$142	$102	$40	40%	5.9%
(1) WRB - Adjusted for 3 for 2 share splits in Feb 2022 and July 2024					

An Important Adjustment: Economic vs Accounting Performance

BVPS captures accounting results. What ultimately matters, however, are economic results.

Over the past 6 years, Fairfax's economic results have exceeded even its strong accounting results. The most obvious example is excess of fair value over carrying value for non-insurance associate and consolidated companies, which stood at $2.5 billion ($108 per diluted share, pre-tax) at September 30, 2025. There are numerous other examples, including Bangalore International Airport.

The key point is straightforward: Fairfax's book value is understated. As a result, its true economic outperformance relative to peers is even greater than what reported BVPS suggests.

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2. Total Shareholder Return - Six-Year View (Dec 31, 2019–Dec 31, 2025)

Over the long term, total shareholder return is likely the best single metric for evaluating company performance.

Total shareholder return includes share price appreciation plus all dividends paid (including special dividends).

Results:

- Fairfax ranks #1 again
- Total return: +323%
- CAGR: 27.2%

Most peers delivered respectable returns in the low-to-mid teens. Fairfax's performance, by contrast, has been exceptional – dramatically outpacing the group.

P/C Insurance Peers - Comparing Performance - 6 Year (Dec 31, 2019 to Dec 31, 2025)							
	Share Price			Total Dividends Paid	Total Shareholder Return		
	Dec 31 2025	Dec 31 2019	6-Yr Increase		Per Share	%	CAGR
Fairfax	$1,913	$469	$1,444	$70	$1,514	323%	27.2%
WR Berkley (1)	$70	$31	$39	$5	$45	145%	16.1%
Travelers	$290	$137	$153	$23	$176	129%	14.8%
Berkshire B	$503	$227	$276	$0	$276	122%	14.2%
Intact Fin (C$)	$286	$140	$145	$24	$169	121%	14.2%
Chubb	$312	$156	$156	$20	$177	114%	13.5%
Markel	$2,150	$1,143	$1,006	$0	$1,006	88%	11.1%
(1) WRB - Adjusted for 3 for 2 share split in Feb 2022 and a second one in July 2024							

Valuation Analysis

Having established performance leadership, we now turn to valuation.

1. Price-to-Book Value (P/BV)

- Fairfax P/BV: 1.59x

Fairfax trades near the *lowest* P/BV in the peer group. Compared to the most expensive names—such as Intact Financial and W. R. Berkley—Fairfax is meaningfully cheaper.

Moreover, as discussed earlier, Fairfax's book value understates its economic value. Adjusting for this implies that Fairfax's *true* P/BV is even lower. In other words, the stock is cheaper than it appears on reported numbers.

Peer Comparison Price to Book Value	P/BV	Sh Price Dec 31 2025	BVPS Sept 30 2025
Intact Fin (C$)	2.77	$286	$103
WR Berkley	2.72	$70	$26
Travelers	2.05	$290	$142
Chubb	1.71	$312	$182
Fairfax	1.59	$1,913	$1,204
Berkshire B	1.55	$503	$324
Markel	1.50	$2,150	$1,429

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2. Price-to-Earnings (P/E)

While P/E is perhaps not ideal as a stand-alone performance measure for P/C insurers, it remains useful for peer comparison.

- Fairfax trailing P/E: 9.6x

Once again, Fairfax screens as the cheapest stock in the group. By a wide margin.

Peer Comparison Price to Earnings	P/E	Sh Price Dec 31 2025	Earnings Estimate 2025E (1)
Berkshire B	17.8	$503	$28.20
Intact Fin (C$)	16.7	$286	$17.09
WR Berkley	15.5	$70	$4.52
Markel	14.2	$2,150	$151.17
Chubb	12.9	$312	$24.16
Travelers	11.9	$290	$24.33
Fairfax	9.6	$1,913	$198.71
(1) Analyst estimates at Dec 12, 2025			

Summary of Findings

Performance

Over the past six years, Fairfax has delivered:
- Best-in-class BVPS growth
- Best-in-class total shareholder return

Valuation

Despite this performance, Fairfax currently trades at:
- P/BV: 1.59x
- P/E: 9.6x

Both are the lowest among peers.

Interpreting the Disconnect

What explains this valuation gap?

- **Management quality?** Best-in-class
- **Earnings quality?** Highest in company history; durable and repeatable
- **Future prospects?** Stronger than ever, with both insurance and investment engines performing at a high level

Ratings agencies agree:

- AM Best upgrades (2023 and 2025)
- S&P Global upgrades (2024 and 2025)

Sell-side analysts have steadily raised estimates and price targets, with most rating Fairfax Outperform or Top Pick.

The simplest explanation is often the most accurate. Fairfax remains under-followed. As a result, it continues to be misunderstood and mis-valued.

Conclusion: Margin of Safety Remains

An investor today is able to buy the top performing P/C insurance company - with among the strongest future prospects - at the cheapest valuation in its peer group.

In Ben Graham's terms, the stock still appears to offer a meaningful margin of safety.

Does that make any sense? No – of course not.

> "The way of the successful investor is normally to do nothing — not until you see money lying there, somewhere over in the corner, and all that is left for you to do is go over and pick it up."
>
> *Jim Rogers*

Peer Comparison - Summary of Key Valuation Metrics

	6-Year CAGR TSR (1)	5.75-Year CAGR BVPS (2)	Dec 31, 2025 P/BV (3)	Dec 31, 2025 P/E (4)
Fairfax	27.2%	17.1%	1.59	9.6
WR Berkley	16.1%	10.2%	2.72	15.5
Travelers	14.8%	5.9%	2.05	11.9
Berkshire B	14.2%	11.4%	1.55	17.8
Intact Fin (C$)	14.2%	11.9%	2.77	16.7
Chubb	13.5%	7.2%	1.71	12.9
Markel	11.1%	10.5%	1.50	14.2

(1) Total Shareholder Return - share price increase + dividends Dec 31, 2019 to Dec 31, 2025
(2) 5.75 CAGR - Dec 31, 2019 to Sept 30, 2025
(3) Share price at Dec 31, 2025; BV at Sept 30, 2025
(4) Share price at Dec 31, 2025; analyst est at Dec 12, 2025

Eight Lessons Learned Over the Past 5 Years (2020-2025)

December 12, 2025

> "There is nothing new in Wall Street. There can't be because speculation is as old as the hills. Whatever happens in the stock market today has happened before and will happen again."
>
> *Jesse Livermore - Reminiscences of a Stock Operator*

History is important – it can be a wonderful teacher. As Livermore reminds us, market behaviour is astonishingly repetitive – human nature does not change. At the same time, the discipline required for intelligent investing remains constant.

Learning from the past can be an important way to get an edge – it can provide context, perspective and wisdom. It improves our understanding. And helps us avoid repeating mistakes. In short, it can help us become better investors.

> "What we learn from history is that people don't learn from history." *Warren Buffett*

The problem is most people are incapable of learning from the past.

But let's try anyways.

Fairfax has had a historic run over the past 5 years. The business is rolling and the stock is smoking. This is a good time to step back and reflect on what has happened.

What are the lessons for investors?

Below are eight that come to mind for me.

Lesson 1: Investors Must Stay Rational – Always

Investing (buying a stock) is not like getting married. Or like joining a club/clique (sorry Tom Gaynor).

Ideally, we are able to buy stocks and hold them forever. But that is just not realistic. And that is because shit happens. Facts change. Fundamentals/earnings change. Sometimes management teams lose their way. A great investment can become a terrible investment. But unlike marriage, exiting a broken stock is an easy thing for an investor to do.

When should an investor sell an investment?

According to Peter Lynch, a pretty smart guy, an investor should sell an investment when the story/fundamentals take a turn for the worse. Pretty simple.

Fairfax's Story From 2010–2020

Over its long history, a person usually invested in Fairfax because of their investing skills - not because of the quality of their P/C insurance business. (Yes, that has changed today.)

But something important happened at Fairfax from 2010 to 2020. Fairfax lost its way with its investing framework:

- The "equity hedge/short" strategy was a disaster, costing the company an average of $494 million per year from 2010 to 2020. The issue with this position was its size (massive) and duration (largely in place for 11 years).
- Many of the equity purchases made from 2014 to 2017 were another, smaller disaster.

This caused earnings at the company to stagnate. And the stock went sideways from 2010 to 2020. During this time, the S&P500 went up 200%. Measured in terms of opportunity cost, Fairfax investors "lost" a significant amount of money from 2010 to 2020.

This, of course, violated Warren Buffett's rule #1 which is "don't lose money."

What Was the Lesson – What Should a Rational Investor Have Done?

By about 2012/2013 it was becoming clear that Fairfax had lost its way on the investing side of the business. As a result, the Fairfax story had changed significantly - and for the worse.

The correct course of action for an investor back in 2012/2013 was to sell their Fairfax stock - and move on. This course of action would have saved many investors years of anguish and massive underperformance.

This does not mean that an investor could never again invest in Fairfax? Like any other opportunity, what an investor did in the future would depend on their assessment of the opportunity – management, fundamentals, prospects, valuation etc. Again, an investor needs to be as rational as possible at all times.

Now I am looking at things from the perspective of a small investor. If I do a good job with my investments my family eats. If I do a shitty job my family doesn't eat. As a result, I need to be very rational at all times with my investment decisions.

The Silver Lining

> "The most important thing to do if you find yourself in a hole is to stop digging." *Warren Buffett*

Fairfax's problems were self-inflicted. Therefore, the 'fix' was also in their control. So, the situation was not hopeless. It deserved to be monitored. If Fairfax was able to fix its investing framework,

then it might make sense for an investor to buy shares. Logic, not hope, should drive the investment decision.

But given the stocks exceptional run the past 5 years, doesn't this mean buy and hold was - with hindsight - the correct course of action to have taken with Fairfax?

No. Selling back in 2012/2013 was still the correct course of action. And that is because back then Fairfax *had* lost its way with its investing framework.

And back in 2012/2013 (and over the next couple of years that followed) it was clear that Fairfax did not yet recognize that they even had a problem.

Fairfax did not start righting their investing framework until late 2016 when they finally exited the equity hedges. By 2018 they were making much better decisions with new equity purchases. The final "fix" was made at the end of 2020, when they exited the last of their short positions. It still took another couple of years for Fairfax to clean up the many problem children that were still residing in their equity portfolio. As a result, it was only around 2021 that investors started to trust that Fairfax had indeed righted the ship and fixed their investing framework. That was a full 8 years after it was pretty clear that Fairfax had a problem.

And back in 2012/2013 it was not a given that Fairfax would actually fix anything. This could have easily gone the other way - with their investments, Fairfax could have continued to go down their old disastrous path.

Long term shareholders have been very lucky with how their investment in Fairfax has played out over the past 5 years - not smart. Yes, Fairfax was able to execute a successful turnaround. But that is not what usually happens.

There is Also an Important Lesson Here for Fairfax

Fairfax wants to attract long term shareholders – that was pretty apparent during the Q&A session at the AGM this year. If this is the case, then Fairfax needs to hold up its end of the bargain – they need to run the business in a way that attracts/aligns with long term shareholders. When it comes to the type of shareholder base they have, companies generally get what they deserve.

Lesson 2: Financial Markets Sometimes Get It Completely Wrong - For Years

> "The most important quality for an investor is temperament, not intellect. You need a temperament that neither derives great pleasure from being with the crowd or against the crowd." *Warren Buffett*

Pretty much everyone got Fairfax wrong 5 years ago.

Who got Fairfax the most wrong? The haters. Their hate stopped them from being rational. It stopped them from looking at the company objectively. As a result, they likely did not invest in Fairfax at all. So, they missed out on one of the great investments of the past 5 years.

The haters are a pretty quiet bunch these days. But they were out in full force in 2020.

But even many of those who were positive on Fairfax 5 years ago were also very wrong. They grossly underestimated the opportunity. As a result, they likely did not size their position properly. And many likely sold their position much too soon.

Who got Fairfax the most right 5 years ago? Some lucky guy named Prem Watsa who invested $150 million in Fairfax at US$308/share in June of 2020 at pretty much the bottom. If only he had not kept his investment (and his rationale) secret… we all could have learned and benefitted from what he knew!

Of course, Prem did tell investors what he was doing and why. Prem nailed it. And we all completely ignored him. (I guess this also explains why he is a billionaire and we aren't!)

From Fairfax's press release on June 15, 2020:

> Mr. Watsa commented as follows in connection with this purchase: "At our AGM and on our first quarter earnings release call, I said that our shares are 'ridiculously cheap'. That statement reflected my recognition that in the 35 years since Fairfax began, I have never seen Fairfax shares sell at a bigger discount to their intrinsic value than they have recently. I have now backed up my strong words by purchasing close to US$150 million of Fairfax shares in the market over the last few days, as I believe that this will be an excellent long term investment."

Be Careful Who You Listen To

Who and what you let into your brain is super important. It is crazy how easily an investor can get messed up by their information sources. Bad analysis and faulty logic can pollute rational thought and actions – once it gets into your head and thought process it can be very difficult to remove.

Ignore the Haters

As we learned in lesson 1, successful investing is centred on being rational. Haters don't care about management, fundamentals, prospects or valuation. Haters are blinded by the facts, especially at inflection points. The problem is the haters usually say things with a lot of conviction - and the old (wrong) narrative makes so much sense. This makes their views sound very persuasive at the time.

Back in 2020, the haters were out in full force. What were they saying? "Prem is an idiot." Or something similar. Their analysis was exclusively rear-view mirror in nature. The positive changes happening at the company didn't matter. The improving fundamentals and earnings didn't matter.

This leads into our next lesson.

Lesson 3: The Corner of Berkshire & Fairfax Is an Amazing Resource for Investors.

> "You only have to be able to evaluate companies within your circle of competence. The size of that circle is not very important; knowing its boundaries, however, is vital." *Warren Buffett*

Having the opportunity to hang out with, learn from and debate with many other successful investors from all walks of life and all over the world is amazing. Being able to do so for 20 years is priceless.

The Corner of Berkshire and Fairfax (CofBF) has been sprinkling pixie dust on its members for more than 20 years. Sanjeev, thank you for running a wonderful investment forum.

And when it comes to Fairfax, there is no better resource for investors out there. The analysis provided by board members over the years (23 and counting) has been simply outstanding. And for the past 5 years, members of CBF have had a front row seat to Fairfax's amazing turnaround.

Out of Favour = Under-followed

The fact that sentiment in Fairfax got so bad back in 2020 was actually a big help in this regard.

Pretty much no one was following the company back then. At the same time, the old narrative surrounding the company was completely wrong. That is a wonderful set up for an independently thinking, open-minded investor.

When it came to Fairfax as an investment, this gave CofBF board members a massive information advantage over the entire investment community. This advantage remains today.

But seeing an opportunity is not enough.

Lesson 4: Knowledge Without Action Often Results in the Biggest Mistakes for Investors.

> "The most extreme mistakes in Berkshire's history have been mistakes of omission. We saw it, but didn't act on it. They're huge mistakes — we've lost billions. And we keep doing it. We're getting better at it. We never get over it." There are two types of mistakes: 1) doing nothing; what Warren calls "sucking my thumb" and 2) buying with an eyedropper things we should be buying a lot of." *Charlie Munger*

To make money an investor can't just read and study and sit in cash. At some point in time, they have to act on what they have learned and buy something. And they need to size their position properly (more on this later in the post).

Sanjeev (and others) were pounding the table very loudly on Fairfax during the entire summer of 2020. At the time, they provided lots of great analysis in support of their views. The opportunity in Fairfax was gift wrapped for the members of the Corner of Berkshire and Fairfax.

For a trip down memory lane, below are links to a couple of threads from 2020 with Sanjeev (and a few others) pointing out how cheap Fairfax had gotten - with pushback from lots of others. In the second link, Sanjeev suggests Fairfax could return 300% over a 5 to 7-year time frame. It got there in 4 years.

- https://thecobf.com/forum/topic/18079-remember-this-quote/#comment-411701
- https://thecobf.com/forum/topic/17401-fairfax-2020/page/12/#comment-401311

What is interesting is how fast the general stock market bounced back in 2020 - by August the S&P500 took out its pre-Covid high (reached in February) and was back at all-time highs.

In February of 2020, Fairfax was trading at $475 per share. From March 17 to November 13, 2020, Fairfax traded below $320 per share. Investors had about 8 months to do their research, get comfortable with the story and still buy Fairfax at a historically cheap valuation.

Fairfax did not take out its pre-Covid (February) high until December of 2021. It stayed cheap for years.

But how many board members actually invested in Fairfax in 2020? Or 2021? Or 2022? Or 2023?

Not acting on what you know – Buffett calls that "thumb sucking." My guess is when it comes to Fairfax, there has been a lot of thumb sucking going on the past 5 years.

What about me? What was I doing?

All through the summer I was listening to Sanjeev and others on the board - I just wasn't doing anything about it (that "thumb sucking" thing). That changed in late October 2020, when I re-established a position in the stock. I got very lucky with my timing. Not surprisingly, that is also when my posting on Fairfax started to increase.

- https://thecobf.com/forum/topic/17401-fairfax-2020/page/26/#comment-422165

Lesson 5: Value Investing Works - Really Well

> "The three most important words in investing are margin of safety." *Warren Buffett*

What is margin of safety?

Buy something for less than it is worth.

This investment framework works so well for 2 simple reasons:

1. If you are right, you can make a lot of money.
2. If you are wrong, your downside is protected.

And the bigger the discount (margin of safety) the better.

> **"**It is extraordinary to me that the idea of buying dollar bills for 40 cents takes immediately with people or doesn't take at all." *Warren Buffett*

What is a good way to value an insurance company?

By using book value.

What was Fairfax's price/book value multiple in 2020?

At the end of 2019, Fairfax traded at a P/BV = 1x. At the time, Fairfax was out of favour as an investment - and this was reflected in its very low P/BV multiple.

After Covid hit, Fairfax sold off aggressively. From March to December of 2020, it traded at a P/BV multiple of about 0.7x and there were times when it traded below 0.6x.

That was a historically low valuation for Fairfax.

Fairfax - Comparing P/BV Multiples

	2019	2020			
	Dec 31	Mch 31	Jun 30	Sept 30	Dec 31
Stock Price	$469	$307	$309	$293	$341
Book value	$486	$422	$435	$442	$478
P/BV	0.97	0.73	0.71	0.66	0.71

What was a rational investor to do?

Buy the stock, of course.

Fairfax was a textbook value investment in 2020.

Buying Fairfax was a pretty easy decision. The difficult decision in 2020 was position size - how much should an investor buy?

Lesson 6: Sizing a Position is Critically Important to Long Term Investment Performance

> "Sizing is 70% to 80% of the equation. Part of the equation is seeing the investment, part of the investment is seeing myself in a good trading rhythm. It's not whether you're right or wrong, it's how much you make when you're right and how much you lose when you're wrong,"
> *Stan Druckenmiller*
>
> https://moneyweek.com/investments/investment-strategy/605020/stan-druckenmiller-position-size-really-matters

In 2022, Warren Buffett said that 12 investment decisions – one about every 5 years – is what has delivered much of Berkshire Hathaway's outperformance over the years.

> "In 58 years of Berkshire management, most of my capital-allocation decisions have been no better than so-so... Our satisfactory results have been the product of about a dozen truly good decisions – that would be about one every five years." *Warren Buffett - Berkshire Hathaway 2022AR*

Truly great investment opportunities come along very infrequently – Buffett found about two each decade. And he is really good at this game. Guess how many an average investor is going to find?

These are investments that:

- You understand better than almost everyone else.
- Are trading at a very cheap valuation.

When you find one of these you need to take full advantage - and get the position size right. Getting this right is what allows an investor to outperform the market averages over time.

Concentrating a position does a couple of important things for an investor:

- It focusses the mind (that "skin in the game" thing).
- It results in a higher purchase threshold (reserved for best ideas).

Of course, this strategy only works if you are right.

Concentration is a great example of how the theory part of investing is incredibly simple. And the practice/execution part is incredibly difficult.

Is concentration not a risky think to do?

I like Buffett's definition of risk:

> "Risk comes from not knowing what you are doing." *Warren Buffett*

Fairfax

For much of 2020, Fairfax was trading at a historically low valuation. This means the stock was trading at the largest margin of safety in the company's history.

Later in 2020, Fairfax's investments had stabilized (cyclical stocks rebounded) and its insurance business was growing nicely (hard market).

Yes, this was a great time to buy the stock. But more importantly, it was the perfect time to back up the truck and build out a concentrated position.

With Fairfax, investors got one of those "punch card" moments that Buffett has often talked about in the past.

Lesson 7: Follow the Fundamentals - This is What Should Have Kept an Investor in Fairfax

> "You're not buying a stock, you're buying part ownership in a business. You will do well if the business does well. And if you didn't pay a totally silly price." *Warren Buffett*

> "What possible assurance do you have that (a stock you own) will go up in price? And if you are buying, how much should you pay? What you're asking here is what makes a company valuable, and why it will be more valuable tomorrow than it is today. There are many theories, but to me, it always comes down to earnings and assets. Especially earnings." *Peter Lynch - One Up On Wall Street*

OK. So, you discovered a great investment. You bought it. And then you sized it properly - made it a significant position.

What do you do next?

You own a piece of a business. So, the next thing you do is you closely monitor how the business is performing: management, fundamentals/earnings and prospects. Are they improving? Staying the same? Or deteriorating?

> "If past history was all that is needed to play the game of money, the richest people would be librarians." *Warren Buffett*

Monitoring the fundamentals is even more important for a turnaround play. And that is what kind of investment Fairfax was back in 2020.

What Happened with Fairfax?

In 2021, the fundamentals of the company got better. Much better.

Why?

Three things were happening at the same time:

1. Driven by the hard market, the insurance business was growing rapidly. Organic growth is the best way to grow because it tends to be very profitable.
2. Cyclical stocks (Fairfax had lots in their equity portfolio) spiked higher.
3. With capital allocation, the management team began executing exceptionally well – they exploited the volatility in financial markets.

Headwinds had flipped to tailwinds. Also, by 2021, Fairfax had fixed its investing framework. The turnaround was turning around - and quickly.

The fundamentals of the business continued to improve in 2022. And again in 2023. A decade long headwind - low interest rates - turned into a tailwind when interest rates spiked. By the end of 2023, the turnaround was complete. Truth be told, it was probably complete the end of 2022.

What Happened to Earnings?

Earnings spiked higher. Importantly, the increase in earnings was being driven by operating income. Operating income at Fairfax averaged $1.25 billion per year ($49 per share) from 2016 to 2021. In 2024 it was $5.5 billion ($252/share). Operating income per share increased by 415%. That is a simply amazing increase over a 4-year period.

What Happened to the Share Price?

It spiked higher.

What About Valuation?

This is where the story gets even more interesting - and a little nuts.

Mr. Market was focussed on Fairfax's stock price. Those who followed the company closely were focussed on fundamentals and earnings. Fairfax's stock went up lots. But so did fundamentals and earnings. As a result, the valuation gap wasn't shrinking by all that much. As a result, despite its runup, the stock continued to be undervalued.

Following the fundamentals closely is what likely stopped many investors from selling their shares after a quick gain. This gets to our next lesson.

Lesson 8: Patience is How You Make the Big Money.

"And right here let me say one thing: After spending many years in Wall Street and after making and losing millions of dollars I want to tell you this: It never was my thinking that made the big money for me. It always was my sitting. Got that? My sitting tight! It is no trick at all to be right on the market. You always find lots of early bulls in bull markets and early bears in bear markets. I've known many men who were right at exactly the right time, and began buying or selling stocks when prices were at the very level which should show the greatest profit. And their experience invariably matched mine - that is, they made no real money out of it. Men who can both be right and sit tight are uncommon. I found it one of the hardest things to learn. But it is only after a stock operator has firmly grasped this that he can make big money..." *Reminiscences of a Stock Operator*

"Be patient. The stocks that have been most rewarding to me have made their greatest gains in the third or fourth year I owned them. A few took ten years." *Peter Lynch*

"Selling your winners and holding your losers is like cutting the flowers and watering the weeds." *Peter Lynch*

How many investors sold their Fairfax shares for a quick small gain in 2021. Or 2022. Or 2023? Or 2024? Most of the investors that sold Fairfax over the past three years have likely missed out on making the big money.

What is the Hardest Thing in Investing?

Holding winners. Holding big winners… well, that is almost impossible.

So, guess what? Most investors have few if any big winners. As a result, they usually underperform the market averages.

Why is this?

Monitor (following the fundamentals) and patience (hold your winners) are often contradictions. Because monitor often results in action. Your brain just can't help itself – it's busy computing and… well… it's decided you need to do something… anything! It needs you to act on what it thinks it knows.

And then your gut gets involved – it doesn't want to be ignored or left out. So, it starts telling you do something as well (sometimes it is screaming). As a result, winning positions usually get sold way too early. And the reasons usually make sense at the time.

Do nothing? Ignore what both your brain and gut are telling you? Now that is hard. Pretty much impossible for most investors.

This process gets even harder for big positions – because you monitor your big positions even more closely (so your brain and your gut have even more to say).

Selling a big winner way too early can be disastrous to investors long term results. Because they come along so infrequently.

What is an Investor to Do?

Be as rational as possible.

And here we are, back at the start of our story.

Final Thoughts

Where does Fairfax go from here?

Fairfax has already been a 5 bagger for many members of *Corner of Berkshire and Fairfax*.

Are we done?

I don't think so. I think the next chapter in Fairfax's story is just getting started.

Fundamentals continue to improve. Earnings are strong (record high). We know BV is materially understated (one reason is excess of FV over CV). When it comes to capital allocation, the execution from the management team has been best-in-class over the past 5 years. Its prospects look very good. At the same time, the stock is cheap.

But don't take my work for it… Fairfax continues to be very aggressive with share buybacks – and they only buy back shares if they think they are trading at a discount to their intrinsic value.

Prem Watsa and Family Control

December 12, 2025

This post introduces investors to Prem Watsa and Fairfax Financials' unique founder-led, family controlled structure. The following topics are discussed:

- Who is Prem Watsa?
- How has Fairfax performed under his leadership?
- How much does Prem get paid?
- How much of Fairfax does Prem own?
- Family control
- Sending a strong message: Prem's $149 million stock purchase in June 2020

Who is Prem Watsa?

Prem Watsa is the founder, Chairman, and Chief Executive Officer of Fairfax Financial Holdings. He founded Fairfax in 1985 and has led the company continuously for nearly four decades.

Over this period, Fairfax has evolved from a small Canadian insurer into a global property and casualty insurance and investment organization, with operations spanning insurance, reinsurance, investments, and controlled operating companies.

Fairfax's Long-Term Performance Under Prem Watsa

From 1985 to 2024, Fairfax delivered compound annual growth of:

- Book value per share = 18.3%
- Share price (C$) = 17.9%

This 39-year record places Fairfax among the top tier of long-term performers in both the TSX and the S&P 500. Shareholders have effectively partnered with one of Canada's most successful capital allocators.

But what makes Prem special is *how* he did it.

Warren Buffett has often said that he looks for 3 qualities in leaders:

1. Intelligence
2. Initiative (or energy)
3. Integrity

Of the three, integrity is the most important – because with integrity comes trust. Prem Watsa has an abundance of all three traits. As a result, all stakeholders in Fairfax have benefitted greatly over the past 40 years – employees, shareholders, customers and society.

Prem has a couple of superpowers:

- Ability to attract and retain talent
- Temperament

Adam Smith: What do you consider the most important quality for an investment manager?

Warren Buffett: It's the temperament. You don't need tons of IQ in this business. I mean you have to have enough of IQ to get from here to downtown Omaha but you do not have to be able to play three-dimensional chess or being the top player in a bridge league. You need a stable personality and temperament that neither derives great pleasure from being with the crowd or against the crowd because this is not a business where you take polls; it's a business where you think. Ben Graham would say that you're not right or wrong because a thousand people agree with you and you're not right or wrong because a thousand people disagree with you. You're right because your facts and your reasoning are right. *Warren Buffett - Adam Smith's Money World Interview 1985*

In recognition of his achievements, Prem has received numerous awards from various groups.

Prem was inducted into the Canadian Business Hall of Fame in April 2024.

To watch the 6-minute biography of Prem on YouTube, click the link below:

- https://www.youtube.com/watch?v=SisxUC232t8

The Empire Club of Canada Presents: 2024 Nation Builder Award - February 2025

Celebrating Prem Watsa – (Go to 38:28 minute mark of video)

- https://youtu.be/jMO6NDcdI2o?si=Nnd-AMjPqPa-OfiA

"Prem Watsa's story is both inspiring and impressive – embodying resilience, ingenuity, and an unwavering commitment to excellence and integrity in business. As a newcomer to Canada, he supported himself through an MBA program at Western University and began his career as an investment analyst. Mr. Watsa went on to found Fairfax Financial Holdings, today a leading Canadian company in the global insurance sector with a market capitalization of more than $40 billion."

Prem Watsa's Compensation

Prem Watsa's compensation structure is unusually shareholder-friendly:

- **Salary:** C$600,000/year (unchanged for decades).
- **Stock-based compensation:** None

For a company of Fairfax's scale (size and performance), this represents an exceptionally modest pay package. From a compensation standpoint alone, shareholders receive outstanding value.

Prem Watsa's Ownership Position in Fairfax

Below is a summary of the shares Prem owns and controls:

- 9.5% economic interest, valued at $3.7 billion.
- 43.3% voting interest.

Prem Watsa's Ownership/Control of Fairfax Shares	
	9.5% econimic ownership (using effective shares)
	43.3% voting control (Dec 31, 2024)
	From Fairfax's Proxy Report (March 7, 2025)
467,196	Owned directly
2,100	Excercises control of direction
50,620	Controlled (Owned by Sixty Two Investment Co)
1,548,000	Controlled - multiple voting shares (Owned by Sixty Two)
2,067,916	Total Shares Owned/Controlled by Prem
$3.67	MV ($b) at $1,776 share price (Dec 12, 2025)
21,668,466	Common Stock Effectively Outstanding (Dec 31, 2024)

What This Means for Shareholders

- Prem (and the Watsa family) is firmly in control of Fairfax.
- The majority of Prem's net worth is held in Fairfax shares. As a result, his interests are firmly aligned with those of long-term shareholders.

The Next Generation

Two of Prem's children currently serve on Fairfax's board:

- Christine McLean
- Ben Watsa (also Chairman of Fairfax India)

From Fairfax's website: https://www.fairfax.ca/about-fairfax/

Christine N. McLean is a Portfolio Manager at Fairbank Investment Management Limited, an investment advisory firm with a value approach to investing for private clients, foundations and small institutions, founded by the former President and Co-Founder of Sprucegrove Investment Management Ltd.

Ms. McLean previously held the position of Director of Research at Sprucegrove Investment Management Ltd. ("Sprucegrove"), a value-oriented investment advisor specializing in global equities for institutional investors. Ms. McLean began her investment career more than 20 years ago at Sprucegrove in 2004 as a Global Investment Analyst. Ms. McLean serves as a Board Member of Branksome Hall and Upper Canada College Foundation. Ms. McLean holds a Bachelor of Science in Business Administration specializing in Finance from the University of Richmond, Virginia and a Chartered Investment Manager designation. Ms. McLean is the daughter of Prem Watsa.

Benjamin P. Watsa is the Founder, Chief Executive Officer and Chief Investment Officer of Marval Capital Ltd. ("Marval").

Mr. Watsa has over two decades of experience in the investment industry. Prior to Marval, Mr. Watsa was a Partner and Portfolio Manager at Lissom Investment Management Inc. for over a decade and spent five years in New York as an investment banker in the Financial Institutions Group at Banc of America Securities and at Cochran Caronia Waller. Mr. Watsa also serves as Chairman of our publicly traded subsidiary, Fairfax India Holdings Corporation, sits on the advisory board of Impression Ventures, and holds the position of director emeritus for his work and contributions as a director and Vice Chair of the Investment Committee for the Rideau Hall Foundation. Mr. Watsa is a member of the Young Presidents' Organization, holds a B.A. from Hillsdale College and a Chartered Investment Manager designation and is registered with the Ontario Securities Commission as a Portfolio Manager. Mr. Watsa is the son of Prem Watsa.

Family Control

Family controlled companies can offer meaningful advantages.

Key Benefits Observed at Fairfax

- Strong level of commitment and dedication to the business.
- Long term focus when making business decisions: Important for P/C insurance and investment management businesses (investing in equities). Especially during downturns (soft insurance market and/or bear market in financial markets).
- Strong corporate culture: Leading to better employee retention, higher productivity and better morale.
- Durable external relationships: Built over the long term, can help enormously with deal flow.
- Strong community focus and social purpose.

Together, these factors have contributed to Fairfax's strong long-term financial outcomes over the past 39 years.

Governance Questions Investors Should Ask

Is the company being run in the best interests of long-term shareholders?

- This is a critical question. When it comes to Fairfax the answer is "yes."

Is the founder still CEO?

- Prem is one of the GOAT's. The fact that he is still CEO is important.

What does the founder's compensation look like?

- As reviewed above, Prem's compensation package is a good deal for shareholders.

Is being family controlled a good or a bad thing for Fairfax?
Can the Watsa family be trusted in their stewardship of Fairfax?

Given what we have seen over the past 39 years, I think the answer to both questions is "yes."

Risks to Monitor

- Succession planning.
- Nepotism.
- Potential family conflict after the founder's tenure.

None of these appear to be material concerns today, but they warrant ongoing monitoring—particularly once Prem is no longer at the helm.

Warren Buffett Has Long Extolled the Virtues of Family Run Businesses

With his comments below, Buffett could have been describing Prem and Fairfax.

> "Family-owned businesses share our long-term orientation, belief in hard work and a no-nonsense approach and respect for a strong corporate culture. Family businesses and Berkshire Hathaway have a common philosophy and make a good team." *Warren Buffett – Wall Street Journal 2010*

Prem Backs Up the Truck and Buys $149M in Fairfax Shares (June 2020)

In the Covid-driven stock market panic of early 2020, Fairfax's share price collapsed. In May 2020, the stock bottomed at approximately $250 per share, while book value stood at $442 as of March 31, 2020.

Even after the initial rebound, Fairfax shares fell back to roughly $260 in October 2020—prices last seen in 2007. For long-term investors of Fairfax, these were the darkest of days. Some likely capitulated and sold their shares. In 2020, the sentiment indicator for Fairfax's stock was flashing "extreme fear."

On June 15, 2020, Prem announced he had purchased 482,600 shares of Fairfax in the open market at a total cost of $148.95 million or $308.64/share.

This was not a token purchase. Prem was sending a strong message that he thought Fairfax's stock was dirt cheap. At the time, few people at the time were paying attention. Fortunately, a few members at the investing forum Corner of Berkshire and Fairfax recognized the opportunity and were actively buying shares alongside him.

Prem's accompanying statement was direct:

> Mr. Watsa commented as follows in connection with this purchase: "At our AGM and on our first quarter earnings release call, I said that our shares are 'ridiculously cheap'. That statement reflected my recognition that in the 35 years since Fairfax began, I have never seen Fairfax shares sell at a bigger discount to their intrinsic value than they have recently. I have now backed up my strong words by purchasing close to US$150 million of Fairfax shares in the market over the last few days, as I believe that this will be an excellent long term investment." *Fairfax News Release June 2020*
>
> https://www.fairfax.ca/press-releases/prem-watsa-acquires-additional-shares-of-fairfax-2020-06-15/

Update: Prem Sells 275,000 Shares (May 2024)

Nearly four years later, on May 13, 2024, Prem sold 275,000 shares of the 482,600 shares he had purchased in June 2020. The shares were sold at $1,106.48 per share, generating proceeds of $304.3 million.

The result: a gain of approximately $221 million on this portion of the investment. This was classic value investing—buying aggressively when fear was extreme and selling selectively after value had been realized. Prem is a value investor and he certainly nailed this investment.

Importantly, the buyer of the shares was Fairfax itself. The company immediately cancelled the shares, reducing effective shares outstanding by approximately 1.2%. Fairfax has been highly aggressive with share buybacks throughout 2024, making this transaction particularly shareholder-friendly.

Why Did Prem Sell?

Prem bought the additional shares in June of 2020 as an investment. Not as a long-term hold. Prem sold the shares for estate planning purposes. He does not plan on selling any more shares.

"As previously announced in 2020, I purchased in the market an additional 482,600 subordinate voting shares of Fairfax at a price of US$308 per share, or approximately US$150 million in total. At the time, I believed, and I said publicly, that the trading price for Fairfax shares was ridiculously cheap and very significantly below intrinsic value, and I was acquiring these shares as an investment. Even though I believe our shares continue to trade well below intrinsic value, I decided to sell a portion of the shares I acquired in 2020, representing only a small portion of my total holdings of Fairfax, for estate planning reasons. As a controlling shareholder, my salary has been fixed at C$600,000, and I have never had a cash bonus nor received any shares as compensation for decades. I continue to control the 1,548,000 outstanding multiple voting shares and 519,828 subordinate voting shares of Fairfax, representing greater than 90% of my net worth, and I am not contemplating further sales. As I have said many times, Fairfax is not for sale, and I am confident that our future is very bright. As always, the best is yet to come," said Prem Watsa, Chairman and Chief Executive Officer of Fairfax." *Fairfax News Release May 13, 2024*

https://www.fairfax.ca/press-releases/fairfax-announces-purchase-of-275000-subordinate-voting-shares-for-cancellation-from-chairman-and-ceo-prem-watsa/

Some Context of the Size of Prem's Purchase

In 2016, JP Morgan's CEO Jamie Dimon made his now famous purchase of battered JPM shares.

How much did he spend? $26.6 million.

At the time (and afterwards), Dimon was widely lauded for his decision. And rightly so. It further cemented his reputation as the best CEO in banking.

In 2020, Prem purchased of $149 million of Fairfax stock. His purchase was almost six times the size of Dimon's purchase.

And what was the reaction from the investment community?

Crickets.

I don't bring this up as a complaint. Rather it is a great example of how underfollowed, under-appreciated and misunderstood Fairfax was in 2020. And although it is getting better, this continues to be the case today.

To Close the Loop

In February 2024, Dimon sold all the shares he purchased. He made a great return of $65 million (243%) over his 8-year holding period.

In May 2024, Prem sold 57% of the shares he purchased (he continues to hold the rest). To date, he has made a total return of $524 million (352%) over his 5.5-year holding period.

		Stock Price	Shares	Value US$ (M)	
	Jamie Dimon - JP Morgan				
Buy	Feb 2016	$53.15	500,000	$27	
Sell	Feb 23, 2024	$182.48	500,000	$91	
	Dimon's Gain			**$65**	**243%**
	Prem Watsa - Fairfax				
Buy	June 2020	$308.64	482,600	$149	
Sell	May 13, 2024	$1,106.48	275,000	$304	
Hold	Dec 12, 2025	$1,776.00	207,600	$369	
	Watsa's Gain			**$524**	**352%**

Chapter 2: Earnings Estimate

Introduction

> "What possible assurance do you have that (a stock you own) will go up in price? And if you are buying, how much should you pay? What you're asking here is what makes a company valuable, and why it will be more valuable tomorrow than it is today. There are many theories, but to me, it always comes down to earnings and assets. Especially earnings." *Peter Lynch - One Up on Wall Street*

Estimating the earnings power of a company like Fairfax is far from simple. Fairfax is a non-traditional property and casualty (P/C) insurer with significant equity holdings. It under-earned for much of the past decade, and over the last five years has undergone a significant internal transformation. For investors, this means that historical financials—especially pre-2021—are often distorted and difficult to use as a guide.

That is now changing. The turnaround in operating earnings that began in 2021 gathered momentum through 2022, 2023, and 2024. With 2025 results in hand, investors now have five years of cleaner, more representative data—information that better reflects Fairfax's true fundamentals. The historical record is finally becoming a reliable input for forecasting.

Yet the challenge remains: no standard, "off-the-shelf" model exists for a company as unique as Fairfax. That complexity, however, creates opportunity for investors prepared to put in the time and do the work. To address this gap, we constructed our own model to estimate Fairfax's future earnings. The remainder of this article outlines that model and the logic behind it.

The Structure of the Earnings Model

Fairfax's reported earnings are driven by five distinct income streams:

1. Underwriting profit
2. Interest and dividend income
3. Share of profit of associates
4. Non-insurance consolidated companies
5. Net gains on investments (realized and unrealized)

If we can forecast each of these reasonably well, the overall earnings estimate should be reasonably accurate. Later sections of this chapter walk through each income stream in turn.

Capital Allocation – Reinvestment

Perhaps the most difficult part of forecasting is anticipating how Fairfax will reinvest the substantial earnings it is now generating (roughly $4.5 billion per year). Fairfax has lots of good options and what they decide will determine which of the five income streams grow the fastest. Because we cannot predict management's precise actions, our model must make educated assumptions about which streams benefit and by how much. As new information arrives each quarter, we update these assumptions.

Looking at the last five years, the management team at Fairfax has done an outstanding job with capital allocation. My guess is they will continue to make good decisions (on balance) and this will benefit shareholders in the coming years – likely providing a tailwind to my forecasted numbers.

Forecasting Methodology

Our forecasting process follows a consistent sequence:

- Begin with historical results. We maintain detailed data going back to 2016.
- Adjust for both "old news" and "new news."
    - Internal developments - reported results, acquisitions and divestitures, management commentary, and updates from major equity holdings.
    - External developments – P/C insurance pricing cycle, catastrophe activity, interest-rate trends, and broader economic conditions.
- Layer in additional assumptions where necessary.

Each section of this chapter provides enough transparency for readers to understand the reasoning behind each forecast—making it easy to adjust assumptions if desired.

Forecasting Time Horizon

Our goal is to be as fact-based as possible. For this reason, our forecasts typically extend no more than two years:

- Current-year forecast (2026): An estimate of where actual earnings will land.
- Next-year forecast (2027): An estimate of "normalized" earnings—what Fairfax should earn in an average or typical year.

Why not forecast 2028, 2029, and beyond?

Because there are simply too many variables: catastrophe size and frequency, capital-allocation decisions, equity-market performance, the path of interest-rates, and the direction of the P/C pricing cycle. Attempting to build detailed multi-year forecasts introduces false precision.

This does not mean I am bearish about Fairfax's long-term prospects. Quite the opposite. I believe the company can deliver a mid-teens (or higher) ROE over the next five years, which implies strong earnings growth into 2028, 2029, 2030, and beyond. I do not need to know the exact mix of drivers today to have confidence in that outcome.

For long-range estimates, the quality of the management team is arguably the most important factor—especially in P/C insurance. Fairfax's execution over the past five years has been best-in-class among peers. That track record meaningfully raises the probability that Fairfax will continue to deliver in year three and beyond, even though we cannot yet know the exact details.

The Dynamic Nature of Forecasting

Forecasts become outdated as soon as they are published. This is because as time passes, we get new and *better* information which causes earnings estimates to change – sometimes materially. As a result, our forecasts are updated frequently, usually every quarter.

Important: New posts contain current earnings estimates. Old posts contain old earnings estimates. Therefore, when you read a post, it is important to pay attention to the date it was written. This provides you with context - what I was thinking on that date.

Is Forecasting a Good Use of Time?

For me, forecasting is extremely valuable—but not because of the precise diluted EPS figure the model spits out at the end. The real value lies in the research and reasoning required to construct the forecast. When results differ from expectations, the gap becomes a prompt for investigation. Why was I wrong? Does the thesis need revision?

Forecasting, in short, is a tool for deepening understanding. Better understanding improves decision-making, which improves investment outcomes.

Accounting Results Versus Economic Results

> "…managers and investors alike must understand that accounting numbers are the beginning, not the end, of business valuation." *Warren Buffett – Berkshire Hathaway 1982AR*

Our model is an *accounting* model: it calculates earnings per share and book value. But shareholders ultimately care about *economic* value—what is happening to Fairfax's intrinsic business value and earning power over time.

This distinction is crucial because accounting results do not capture all the value creation that is happening at Fairfax - EPS and BV have been under-reporting the increase in business value, and in recent years the gap has been growing. One example is excess of fair value over carrying value of Fairfax's non-insurance associates and consolidated holdings. As of December 31, 2025, this totaled $3.1 billion, or roughly $140 per diluted share (pre-tax). This is real value that has been created that has not yet appeared in reported results like EPS and BV. This is just one example of hidden value that is residing within Fairfax.

Over the past five years, Fairfax's economic results have consistently exceeded its accounting results. Investors need to recognize this gap when assessing management's performance and valuing the company.

Understanding Annual Volatility

> "Because our year-to-year results are inherently volatile, we believe a five-year rolling average to be appropriate for judging the historical record." *Warren Buffett – Berkshire Hathaway 1984AR*

Annual results are important. However, because of their business model, annual results for companies like Fairfax and Berkshire Hathaway will be volatile. This is the case for two very different reasons:

- P/C insurance results are volatile, due to catastrophes.
- Investment results are volatile, due to fluctuations in financial markets.

Some years the fluctuations in reported results will be large. As a result, it makes sense for investors to use a rolling average of a couple of years when evaluating the performance of a company like Fairfax.

Earnings Estimate Summary for 2026 and 2027

February 25, 2026

This post updates my 2026 forecast and introduces an initial 2027 estimate for Fairfax. The projections incorporate insights from the Q4 interim report and material developments over recent months.

At the beginning of 2025, my EPS estimate for Fairfax was $152 per share. Actual diluted EPS came in at $214. For several years now, I have underestimated Fairfax's earnings power. That pattern continued in 2025.

The central question is whether the higher earnings base established since 2021 is durable. I believe it is.

Executive Summary

Looked at through the lens of earnings power, Fairfax appears positioned to continue delivering strong results.

2026 Outlook

- Diluted EPS: ~$187
- Excess of Fair Value over Carrying Value (FV–CV): +$25/share (after tax)
- **Economic EPS: ~$212**

2027 Outlook

- Diluted EPS: ~$204
- Excess of FV–CV: +$18/share (after tax)
- **Economic EPS: ~$223**

Street Estimates (as of February 25, 2026)

Sell-side forecasts for diluted EPS forecasts:

- 2026: $184
- 2027: $183

It should be noted, these numbers exclude FV–CV value creation.

Analysts understand Fairfax much better than they did three or four years ago. However, they still struggle with Fairfax's equity holdings and capital allocation and its impact on future results – their forecast for 2027 appears overly pessimistic.

Normalized Earnings Power

From 2023 through 2025:

- Average diluted EPS: $183
- Average FV–CV gains: $32/share
- Normalized economic EPS: ~$215

These figures likely represent a reasonable baseline for future modelling.

Fairfax Earnings		Change	
Feb 24, 2026	Diluted	in Excess	Economic
US$	EPS	FV to CV	EPS
2023	$173	$24	$197
2024	$161	$16	$176
2025	$214	$57	$271
3-Year Avg	**$183**	**$32**	**$215**

Valuation Snapshot

With Fairfax shares trading currently near $1,700:

- P/BV: 1.35 ($1,700 / $1260 BVPS)
- PE (economic EPS): ~7.9x ($1,700 / $215)

For a business with Fairfax's earnings durability, decentralized operating model, and demonstrated capital allocation skill, this valuation appears inexpensive.

Forecast Framework

Fairfax's earnings have three fundamental drivers:

- Underwriting profit – How good is the P/C insurance business?
- Total return on the investment portfolio – How good is the team at Hamblin Watsa?
- Capital allocation – How good is senior management?

High-Level Assumptions

Over the past 3 years, Fairfax has delivered an average:

- Combine ratio (CR): 93.0%
- Total return on investments: 10.0%

2026 Assumptions

- CR: 93.5%
- Total return on investments: 8.5%

2027 Assumptions

- CR: 93.5%
- Total return on investments: 8.3%

Total return includes annual changes in excess of fair value over carrying value for non-insurance associate and consolidated holdings.

Fairfax: Base Assumptions		Total
Feb 25, 2026	Combined Ratio	Return on Investments
2023	93.2%	10.4%
2024	92.7%	7.8%
2025	93.0%	11.8%
3-Year Avg	**93.0%**	**10.0%**
2026E	93.5%	8.5%
2027E	93.5%	8.3%

Six-Year Snapshot of Operating Earnings: The Transformation Since 2021

The chart below clearly communicates the dramatic transformation that has happened with earnings, beginning in 2021. Importantly, the increase has been driven primarily by operating income:

- 2021: $1.9B, or $71 per share
- 2025: $5.5B, or $237 per share (+234% vs 2021)
- 2026E: $5.8B, or $259 per share (+9% YoY)
- 2027E: $6.0B, or $275 per share (+6% YoY)

The key point: earnings growth has been driven primarily by operating income — not one-time gains. Even as the hard market moderates, the earnings base appears durable.

	Fairfax Financial - Earnings History and Estimates								
	Updated: February 25, 2026						**FY**	**FY**	
	As reported on consol bal sheet	**2021**	**2022**	**2023**	**2024**	**2025**	**2026E**	**2027E**	**Comments**
1.)	Underwriting profit - re/insur (1)	$801	$1,105	$1,522	$1,791	$1,817	$1,734	$1,769	2026 & 2027: 93.5%
2.)	Interest & dividend income	$641	$962	$1,896	$2,512	$2,574	$2,550	$2,600	Q4 '25 run rate = $646m
3.)	Share of profit of associates	$402	$1,015	$1,022	$956	$816	$1,050	$1,100	Eurobank, Poseidon, EXCO
4.)	Non-insurance consolidated comp.	$71	$61	$46	$212	$341	$450	$500	Recipe, SI Country, Peak
	Operating income	**$1,915**	**$3,143**	**$4,487**	**$5,472**	**$5,547**	**$5,784**	**$5,969**	
	Per diluted share (weighted avg)	**$71**	**$123**	**$177**	**$225**	**$237**	**$259**	**$275**	
5.)	Effects of disc and risk adj (IFRS 17)	n/a	n/a	-$137	$198	-$956	-$100	-$100	Plug number
6.)	Life insurance & run-off	-$309	-$167	$0	$0	$0	-$250	-$250	Adv devlop avg last 2 yrs
7.)	Interest expense	-$514	-$453	-$510	-$649	-$822	-$875	-$900	Q4 RR = $211m + new iss
8.)	Corp overhead and other	-$409	-$297	-$430	-$450	-$481	-$490	-$500	
9.)	Net gains (losses) on investments	$3,445	-$1,734	$1,950	$1,067	$3,151	$1,500	$1,650	5-year avg: ~ $1.6b
	Loss on repurchase of LT debt	$0	$0	$0	$0	$0	$0	$0	
10.)	Gain on sale/deconsol of ins sub	$264	$1,220	$550	$0	$0	$350	$400	5-year avg: ~ $400m
	Pre-tax income (loss)	**$4,392**	**$1,712**	**$5,908**	**$5,638**	**$6,440**	**$5,919**	**$6,269**	
11.)	Income taxes	-$726	-$425	-$813	-$1,376	-$1,157	-$1,302	-$1,379	
	Net earnings	**$3,666**	**$1,287**	**$5,095**	**$4,262**	**$5,284**	**$4,617**	**$4,890**	
12.)	Non-controlling interests	$266	$140	$713	$388	$511	$440	$460	
	Net earnings attrib. to FFH shareh.	**$3,401**	**$1,147**	**$4,382**	**$3,874**	**$4,773**	**$4,177**	**$4,430**	
	Per effective share (weighted avg)	$129	$47	$187	$173	$230	$203	$223	
	Per diluted share (weighted avg)	**$122**	**$43**	**$173**	**$161**	**$214**	**$187**	**$204**	
13.)	Effect Shares Outstanding Dec 31	23.9	23.3	23.0	21.7	20.9	20.2	19.6	Decline '26 & '27 ~3%/yr
	Diluted Shares Outstand - Dec 31	25.7	25.4	25.0	23.6	22.7	22.0	21.4	
	Avg Tax Rate	16.5%	24.8%	13.8%	24.4%	18.0%	22.0%	22.0%	Range 22% to 25%
	Annual Dividend	$10	$10	$10	$15	$15	$15	$15	Annual dividend
	YE Book Value	$631	$658	$940	$1,060	$1,260	$1,432	$1,621	
	YE Comm Shareholders' Equity ($B)	$15.2	$17.8	$21.6	$23.0	$26.3	$28.9	$31.8	'26/27: EPSxYE sh count
	ROE (average equity)	24.5%	7.0%	22.2%	17.4%	19.4%	15.1%	14.6%	
	1.) Does not incl life insur & run-off	IFRS-17	$762						
	Change in ex of FV over CV (aft-tax)	$30	-$3	$24	$16	$57	$25	$18	'26=$700m; '27=$500m
	Economic EPS (Reported + Ex FV CV)	**$152**	**$40**	**$197**	**$176**	**$271**	**$212**	**$223**	

Detailed Assumptions for Each Line-Item in Forecast for 2026

(Preliminary; will be refined upon release of the 2025 Annual Report.)

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1. Underwriting Profit

Estimate: $1.73B

- Net premiums written growth of ~2% (moderating hard market)
- Combined ratio: 93.5%
    - Average catastrophe year
    - Continued reserve releases (following strong 2025 trend)

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2. Interest and Dividend Income

Estimate: $2.55B

Q4 2025 run rate: $646M

Tailwinds:

- Growth in fixed-income portfolio: $50B → $52B
- Expansion of mortgage loan portfolio via Kennedy Wilson

Headwind:

- Moderation in short-term rates

Yield Assumption: ~4.9% (vs ~5.0% in 2025)

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3. Share of Profit of Associates

Estimate: $1.05B

- Eurobank, Poseidon steady
- Improved performance from EXCO Resources (US natural gas producer)
- Sanmar Chemicals shifting from headwind to a tailwind

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4. Non-Insurance Consolidated Operations

Estimate: $450M

Key contributors: Recipe, Sleep Country, Peak Achievement, AGT Food & Indredients

This earnings stream is breaking out and looks positioned for meaningful growth.

When building the initial forecast, separate numbers are input for 5. IFRS 17 and 6. Life Insurance/Run-Off. For quarterly actuals, these two items are combined. Fairfax does not provide these separately, but we can back into them (as a total) based on other disclosed data.

5. IFRS 17: Discounting and Risk Adjustment

Two variables drive this bucket:

- Net written premium growth: ~2%
- Trend in interest rates: assumes stable interest rates (December 31, 2025 levels)

This category remains difficult to model; confidence in the estimate is low.

6. Life Insurance and Run-Off

- Expected adverse reserve development for run-off: ~$250 million, roughly the average of the past 2 years
- Sale of Eurolife's life insurance business in Greece is expected to close in Q2
- ~$950M proceeds; use of proceeds TBD

Models will be updated post-closing.

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7. Interest Expense

Estimate: $875M

- Based on Q4 2025 run rate ($211M) plus expected issuance.

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8. Corporate Overhead and Other

Estimate: $490M

- Modest increase vs 2025 ($480M)

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9. Net Gains on Investments

Estimate: $1.5B

Drivers:

- Mark-to-market gains (FFH-TRS, Orla Mining, others).
- Realized gains from asset sales

A major revaluation event is not built into the base case. As hidden value continues to grow, these become more likely – we just don't know the timing.

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10. Gain on Sale / Deconsolidation of Insurance Subsidiaries

This this bucket captures large asset sales, usually insurance. Over the past five years, large one-time gains from asset sales/revaluations have averaged about $400 million per year.

Estimate: $350M

Reflects expected gain from Eurolife transaction (expected Q2 close)

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11. Income Taxes

Estimate: ~22%

- Up from 18% in 2025
- Guided range (Q4 call): 22% to 25%
- Investment gains, taxed at lower rates, are expected to be an important driver of earnings

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12. Non-Controlling Interests

Estimate: $440M (~9.5% of net earnings, similar to 2025)

Potential Allied World minority buyout not yet modeled.

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13. Effective Shares Outstanding

Estimate: 20.2M

- Assumes share reduction in 2026: ~650,000, or 3.1%
- 2025YE: 20.9M (down ~812,000, or 3.7% YoY)

Additional Notes:

- Underwriting profit includes insurance and reinsurance (excludes life/run-off)
- Interest and dividend income and share of profit of associates includes insurance, reinsurance, and life/run-off

An Overview of the 5 Income Streams Used in Our Forecasting Model

November 17, 2025

Fairfax has five distinct income streams that drive reported earnings. Understanding what they are, how they have evolved, and what they may contribute in the coming years is essential to analyzing Fairfax's earnings power.

In this section, we answer five questions investors consistently ask:

- What are the five income streams?
- How large are they today?
- What are we forecasting for 2025 and 2026?
- How have they changed over the past four years?
- What are the key takeaways for investors?

The Five Income Streams

Fairfax's earnings come from five sources:

1. Underwriting profit
2. Interest and dividend income
3. Share of profit of associates
4. Non-insurance consolidated companies
5. Net gains (losses) on investments

The first four make up operating income—the recurring, high-quality earnings engines that tend to be durable and predictable for a P/C insurer.

How Big Are They?

The table below summarizes the size of each income stream across three reference points:

- 2016–2021 average for context
- Actual results from 2021 to 2024
- Our forecasts for 2025 and 2026

This snapshot makes one thing immediately clear: Fairfax's income streams look nothing like they did just a few years ago.

Forecast for 2025 and 2026

We estimate Fairfax's five income streams will total $8.1 billion in 2025 (or $387 per share). This compares to $6.5 billion in 2024 (or $301 per share)—a substantial year-over-year increase.

	Fairfax - Income Streams	Avg 2016-21								
	November 17, 2025	Total	Split	2021	2022	2023	2024	2025E	2026E	Split
1	Underwriting profit - ins & reins.	$293	12%	$801	$1,105	$1,522	$1,791	$1,679	$1,729	24%
2	Interest & dividend income	$698	28%	$641	$962	$1,896	$2,512	$2,595	$2,665	37%
3	Share of profit of associates	$151	6%	$402	$1,015	$1,022	$956	$860	$1,050	14%
4	Non-insurance consolidated comp	$111	4%	$71	$61	$46	$212	$360	$450	6%
	Operating income (million)	**$1,253**	**51%**	**$1,915**	**$3,143**	**$4,487**	**$5,471**	**$5,494**	**$5,894**	**81%**
5	Net gains (losses) on investments	$1,213	49%	$3,709	-$514	$2,500	$1,067	$2,625	$1,400	19%
	Total Income Streams (million)	**$2,466**	**100%**	**$5,624**	**$2,629**	**$6,987**	**$6,538**	**$8,119**	**$7,294**	**100%**
	Operating Income Per Share	**$49**		**$80**	**$135**	**$195**	**$252**	**$262**	**$288**	
	Total Income Streams Per Share	$96		$235	$113	$304	$301	$387	$356	
	YE Effective Shares Outst. (Dec 31)	25.8		23.9	23.3	23.0	21.7	21.0	20.5	

How Have the Income Streams Changed?

Several trends stand out:

1. Total income has grown dramatically.

- From $2.5 billion (2016–2021 average) to $8.1 billion in 2025E
- A gain of $5.6 billion (224%)
- Equivalent to a 34.1% CAGR over four years

2. Per-share growth has been even stronger.

- From $96 per share (2016–2021 average) to $387 per share in 2025E
- A gain of $291 per share (303%)
- Equivalent to a 41.7% CAGR

Fairfax's aggressive share repurchase strategy has meaningfully enhanced per-share economics.

The Rise of Operating Income

The most important development is the transformation of Fairfax's operating earnings:

- Operating income grew from $1.25 billion (2016–2021 average) to $5.50 billion in 2025E.
- On a per-share basis, this is an increase from $49 to $262—a 435% gain.
- Operating income now represents ~81% of Fairfax's total income streams, up from ~51% historically.

This shift matters. Operating income is the highest-quality earnings for a P/C insurer—stable, repeatable, and independent of market fluctuations.

A Closer Look at the Components of Operating Income

Underwriting Income

- Has risen from 12% of total income streams (2016–2021 average) to 24% in 2026E.
- Validation that Fairfax's scale and underwriting performance have both improved materially.

Interest and Dividend Income

- Has increased from 28% of total income streams to 37% in 2026E.
- Fairfax is a major beneficiary of higher interest rates.

Associates + Non-Insurance Consolidated Companies

- Combined, these represent Fairfax's emerging "third economic engine."
- Their contribution has risen from 10% of total income streams to 20% in 2026E.
- This is the same category that fueled Berkshire Hathaway's growth for decades.
- Importantly, this income is not tied to the P/C insurance cycle, giving Fairfax another non-cyclical earnings lever.

Fairfax's Income Mix Is Structurally Different Than Peers

Underwriting accounts for only ~24% of Fairfax's total income streams—far below the ~45% typically seen at pure-play P/C insurers.

This has two important implications:

1. Fairfax is far less exposed to the P/C insurance cycle.
2. Capital can be redirected from insurance to investments as the hard market slows, enabling Fairfax to continue compounding at attractive rates.

As the hard market approaches its end, these advantages will become increasingly important.

Looking Ahead

The next five sections of this chapter will examine each of the five income streams in detail—including drivers, key assumptions, risks, and our methodology for forecasting future earnings. Fairfax's income stream profile has been transformed over the past four years. It is larger, higher-quality, and far more diversified than at any other point in the company's history.

Underwriting Profit

November19, 2025

Fairfax has two economic engines: P/C insurance and investments. Insurance has dramatically increased in importance over the past decade - it is much bigger and of much higher quality. Underwriting profit is the most important measure of an insurance company's quality. It is considered a high-quality earnings source because, over time, it is both predictable and durable.

At its simplest, underwriting profit is math:

Net Premiums Earned × (1 – Combined Ratio) = Underwriting Profit

To understand where underwriting profit comes from, we start with the two key inputs: net premiums and the combined ratio (CR). We then bring them together to assess Fairfax's 2025 outlook.

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1. Net Premiums: A Story of Scale and Timing

The growth of Fairfax's insurance platform over the past eight years has been extraordinary. Net premiums written increased from $8.1 billion in 2016 to $25.3 billion in 2024—a rise of 212%, or a 15.3% CAGR.

What Drove This Growth?

Fairfax's expansion happened in two very different phases:

2016–2018: Acquisition-driven expansion

Major purchases—including Brit, International, and Allied World—added significant underwriting capacity.

Late 2019–today: Organic growth from the hard market

Fairfax timed their large insurance acquisitions perfectly - right before the start of the hard market in late 2019.

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2. Forecast for 2025: Slower Growth by Design

For 2025, the forecast is $26.6 billion in net premiums—an increase of $1.3 billion, or 5%.

Drivers of 2025 growth:

- Hard-market pricing continues (although it is slowing).
- GIG is a small headwind, expected to fade in Q4.

- Fairfax is retaining more business as it purchases less reinsurance—a notable tailwind.

Should Investors Worry About Slowing Growth?

No.

At this stage of the cycle, slower top-line growth is not a problem—it's a signal of discipline. Late in a hard market, some insurers chase premium growth. Fairfax is doing the opposite. It is writing only business that meets its return hurdles. While analysts may prefer faster-growing peers, this preference misses the point. Disciplined underwriting late in a cycle is exactly what long-term owners should want to see. (If in doubt, ask some guy named Warren Buffett.)

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3. Net Premiums Per Share: The Real Owner Metric

Total premiums matter. Premiums per share matter more.

With Fairfax aggressively repurchasing shares in recent years, net premiums per share are expected to rise 9% in 2025.

Fairfax is delivering more growth than many investors appreciate.

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4. Combined Ratio: Understanding the Moving Pieces

The combined ratio is influenced heavily by two items:

1. Catastrophe losses
2. Reserve releases (or strengthening)

Catastrophe Losses

Catastrophe activity introduces volatility—always has, always will.

- 2023: $900M (4.0 CR points)
- 2024: $1.1B (4.5 CR points)
- 2025E: A mix of higher Q1 California wildfire losses and lower-than-normal Q3 activity. On balance, a "normal" cat year.

Are Higher Cat Losses Bad?

Counterintuitively, not necessarily.

For well-run insurers, elevated catastrophe losses often extend a hard market because the industry must reprice risk upward. So, while high cat events may pressure the current-year CR, they likely support stronger underwriting profitability in future years.

Current period catastrophe losses, on an undiscounted basis, for the years ended December 31, 2024 and 2023 were comprised as follows:

	2024			2023		
	Losses[1]	Combined ratio impact		Losses[1]	Combined ratio impact	
Hurricane Milton	235.3	1.0		—	—	
Hurricane Helene	174.0	0.7		—	—	
Canadian events[2]	142.1	0.6		—	—	
Dubai floods	89.1	0.4		—	—	
Hawaii wildfires	—	—		183.6	0.8	
Turkey earthquake	—	—		113.0	0.5	
Italy hailstorms	—	—		47.2	0.2	
Other	458.8	1.8		553.5	2.5	
Total catastrophe losses	1,099.3	4.5	points	897.3	4.0	points

(1) Net of reinstatement premiums.
(2) Comprised of the Calgary hailstorm, flooding in Ontario and Quebec and the Jasper wildfire.

Reserve Releases

Net Favourable reserve development has been a meaningful tailwind:

- 2023: $309.6M (1.4 CR points)
- 2024: $593.6M (2.4 CR points)
- 2025: Expected to track roughly in line with 2024

Consistent favourable development affirms that initial loss picks have been conservative—exactly what investors should want.

Net favourable (unfavourable) prior year reserve development, on an undiscounted basis, by reporting segment for the years ended December 31 were comprised as follows:

	Favourable/(Unfavourable)	
Property and Casualty Insurance and Reinsurance	2024	2023
North American Insurers	101.0	127.2
Global Insurers and Reinsurers	257.4	81.6
International Insurers and Reinsurers	235.2	100.8
Net favourable prior year reserve development	593.6	309.6
Run-off – net adverse prior year reserve development	(221.1)	(259.4)
Net favourable prior year reserve development	372.5	50.2

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5. Underwriting Profit Forecast: Bringing It All Together

Fairfax has delivered exceptional underwriting performance:

- 2023 CR: 93.2% → $1.52B underwriting profit
- 2024 CR: 92.7% → $1.79B underwriting profit (a new record)

2025 Estimate:

- CR: 93.5%
- Underwriting Profit: ~$1.68B

The slight uptick in the combined ratio is driven primarily by increased catastrophe activity—not by deterioration in underlying underwriting quality.

2026 Estimate:

- CR: 93.5%
- Underwriting Profit: ~$1.73B

Bottom Line

The combination of growing net premiums and solid underwriting has Fairfax poised to deliver another very good underwriting profit in 2025.

Note: My numbers do NOT include runoff/the Greek life insurance business - to keep them consistent with how Fairfax reports and discusses results.

Fairfax: Net Premiums and Underwriting Profit							Updated: Nov 12, 2025			YE
	Net Premiums Written				Net Pr Earned			UW Profit		Effect.
		YOY	Per	YOY		YOY	CR	Profit	Per	Share
	$ b	Change	Share	Change	$ b	Change	%	$ m	Share	Count
2019	$13.3	10%	$495	12%	$12.5	5%	96.9	$395	$15	26.8
2020	$14.7	11%	$562	14%	$13.9	11%	97.8	$308	$12	26.2
2021	$17.8	21%	$745	33%	$15.5	12%	95.0	$801	$31	23.9
2022	$22.3	25%	$957	28%	$21.0	35%	94.7	$1,105	$47	23.3
2023	$22.7	2%	$987	3%	$22.2	6%	93.2	$1,522	$66	23.0
2024	$25.3	11%	$1,166	18%	$24.6	11%	92.7	$1,791	$83	21.7
2025E	$26.6	5%	$1,265	9%	$25.8	5%	93.5	$1,679	$80	21.0
2026E	$27.4	3%	$1,335	6%	$26.6	3%	93.5	$1,729	$84	20.5

Interest and Dividend Income

November 17, 2025

Interest and dividend income has become Fairfax's most important earnings stream. Three factors explain why:

1. Rapid growth: A much larger fixed income portfolio and sharply higher interest rates have driven interest income materially higher.
2. Size: It is now Fairfax's single largest income stream, estimated at 32% in 2025.
3. Quality: It is predictable, durable, and recurring.

This section breaks down the key components of interest and dividend income, reviews recent trends, and provides our forecast for 2025.

Components of Interest and Dividend Income

Fairfax defines interest and dividend income as:

Interest income + Dividend income – Investment expenses

It is composed of three items:

1. Interest income: Earned on the fixed income portfolio, including cash, short-term investments, bonds, derivatives, and other invested assets.
2. Dividends: Received from Fairfax's *mark-to-market* equity holdings (common and preferred stocks).
3. Investment expenses: Costs associated with operating the investment portfolio.

Interest income accounts for roughly 90% of the total, so it receives most of the analytical focus.

Fairfax - Split of Interest and Dividend Income ($m)	2024	split
Interest Income	$2,341	90%
Dividends	$268	10%
Expenses	-$98	n/a
Total	**$2,512**	

Expenses and Dividends: 2025 Forecast

Investment Expenses

Investment expenses were $98 million in 2024, up from $79 million in 2023.

2025 Estimate: $105 million

Dividend Income

Dividend income was $268 million in 2024. However, $112 million of this was a one-time dividend from Digit tied to its IPO. Excluding that, dividends from recurring sources were roughly $156 million.

2025 Estimate: $220 million

Reflecting healthy underlying growth.

Note: This bucket includes dividends only from mark-to-market equity holdings. Dividends from associates (e.g., Eurobank, Poseidon) or consolidated holdings (e.g., Recipe, Sleep Country, Peak Achievement) are accounted for elsewhere.

Interest Income: A Deep Dive

Interest income is now central to Fairfax's earnings story. Two factors determine its level:

1. The size of the fixed income portfolio
2. The average yield earned on that portfolio

Both have increased significantly.

The Size of the Fixed Income Portfolio

Fairfax's fixed income portfolio has grown meaningfully over the past eight years:

- 2016: $20.3 billion
- 2024: $46.5 billion

This is a total increase of 122%, or a 10.9% CAGR. Growth has been driven by expanding float within the P/C operations and strong internal capital generation.

Fairfax: Fixed Income Portfolio Review			
	$b	Change	Comments: Drivers of change in portfolio
2016	$20.3		
2017	$28.0	37.9%	Allied World acquisition.
2018	$26.7	-4.6%	First Capital sale.
2019	$26.3	-1.5%	Runoff Sale (Riverstone UK)
2020	$29.8	13.3%	Hard market starts.
2021	$36.8	23.5%	Hard market accelerates.
2022	$38.9	5.7%	Hard market continues. Bond bear market (headwind).
2023	$45.3	16.5%	Hard market. Strong earnings. GIG acquisition late Dec.
2024	$46.5	2.6%	Slowing hard market. Strong earnings. Higher interest rates.
	$26.2	**129%**	**8-Year Total Change**
		10.9%	**8-Year CAGR**

Yield and Interest Income Trends

From 2016 to 2021, Fairfax earned:

- Average interest income: ~$650 million
- Average yield: 2.5%
- Duration: approximately 1.2 years

The portfolio was positioned very conservatively—high-quality government securities with very short duration.

When interest rates surged in 2022 and 2023, Fairfax was uniquely positioned to benefit – due to its short duration, the "earn through" from higher rates was immediate.

The result:

- 2022 interest income: $874 million
- 2023 interest income: $1.8 billion
- 2024 interest income: $2.34 billion
- 2024 average yield: 5.1%

Both the size and the yield of the portfolio have effectively doubled since 2016—leading to an extraordinary increase in interest income.

Note: we calculate Average Yield using average Total Fixed Income ((CY+PY)/2).

Fairfax: Interest Income Review				
	Fixed Income	Total Interest Income		
	$bn	$m	Change %	Avg Yield
2016	$20.3	$514	13%	2.5%
2017	$28.0	$515	0%	2.1%
2018	$26.7	$744	45%	2.7%
2019	$26.3	$826	11%	3.1%
2020	$29.8	$717	-13%	2.6%
2021	$36.8	$568	-21%	1.7%
2022	$38.9	$874	54%	2.3%
2023	$45.0	$1,841	111%	4.4%
2024	$46.5	$2,341	27%	5.1%
8-Year Total Change		**$1,827**	**355%**	
8-Year CAGR			**20.9%**	

Sustainability of Higher Interest Income

The elevated level of interest income is sustainable.

Fairfax has gradually extended portfolio duration from 1.2 years (2021) to 2.4 years (June 2025). This locks in attractive yields for several years.

Management reinforced this during the Q2-2025 earnings call:

> "We ended the quarter with $49 billion in fixed income investments. The yield is 5.1%, and our dividend and interest income run rate is a healthy $2.6 billion per annum. Our duration is 2.4 years, including $11 billion in cash and short term treasuries. We continue to stay on the shorter side of duration as we watch inflation and the Fed actions." *Wade Burton – Fairfax's Q2-2025 Earnings Call*

Interest Income Forecast

2025 Estimate: $2.46 (average yield of 5.1%).

Key Drivers

Baseline (current run rate)

- Q3-2025 interest and dividend income was $655 million. (The interest/dividend split will be disclosed in the 2025 Annual Report.)

Headwinds

- Gradually declining short-term interest rates as central banks ease.

Tailwinds

- Growth in size of the fixed income portfolio:
  - Premium and float growth within P/C operations
  - Reinvestment of interest income earned at attractive yields

- Tactical investments in higher yielding opportunities:
  - Blizzard Vacatia (January 2025): $810 million at a blended 10.1% yield
  - First mortgage loans: Increased from $4.78 billion to $5.58 billion through the first nine months of 2025

Interest and Dividend Income Forecast

2025 Estimate: $2.58 billion, 3% growth year over year.

- Interest income: ~$2.46 billion
- Dividend income: ~$220 million
- Investment expenses: ~$105 million

Because Fairfax continues to repurchase shares aggressively, per-share growth is expected to be closer to 6%—a strong result for a recurring, high-quality earnings source.

2026 Estimate: $2.67 billion, 3% growth year over year (6% per-share).

Fairfax: Fixed Income Portfolio - Interest & Dividend Income									Nov 12, 2025	
	A+B+C				A		B	C	Total	YE
	Interest and Dividend							Invest.	Fixed	Effect.
	Total	YOY	per	YOY	Interest	Avg	Divid.	Expen.	Income	Shares
$m	$m	change	share	change	$m	Yield	$m	$m	YE $b	m
2019	$880	12%	$33	14%	$826	3.1%	$94	-$40	$26.4	26.8
2020	$769	-13%	$29	-11%	$717	2.5%	$78	-$25	$29.8	26.2
2021	$641	-17%	$27	-9%	$568	1.7%	$108	-$36	$36.8	23.9
2022	$962	50%	$41	54%	$874	2.3%	$140	-$52	$38.9	23.3
2023	$1,896	97%	$82	100%	$1,841	4.4%	$134	-$79	$45.3	23.0
2024	$2,512	32%	$116	40%	$2,341	5.1%	$268	-$98	$46.5	21.7
2025E	$2,579	3%	$123	6%	$2,464	5.1%	$220	-$105	$50.0	21.0
2026E	$2,665	3%	$130	6%	$2,550	5.0%	$230	-$115	$52.5	20.5

Share of Profit of Associates

November 9, 2025

Over the past three years, share of profit of associates has quietly become one of Fairfax's most important income streams - averaging roughly $1 billion per year or 14 percent of the total. It is part of operating earnings—along with underwriting profit, interest and dividend income, and non-insurance consolidated companies.

This section explains what this income stream represents, why it has grown so rapidly, and what to expect going forward.

What Is Share of Profit of Associates?

Fairfax holds a large equity portfolio—about $26 billion at September 30, 2025 (including FFH-TRS at notional value). Holdings are grouped for accounting purposes into three categories, depending on ownership and influence. Ownership of associate holdings falls between 20% and 50%.

Associate holdings represent $9.1 billion, or approximately 35% of the total equity portfolio.

Fairfax: Equity Portfolio: Split by Accounting Treatment

	Sept 30, 2025		Own / control	
A.) Mark to market	$12,821	49%	Own < 20%	
B.) Associates	$ 9,091	35%	Own 20 to 50%	Significant infl. but not control
C.) Consolidated	$ 4,175	16%	Own > 50%	Control
Total Equity Portfolio	**$26,088**	**100%**		

Under equity accounting, Fairfax records its proportional share of each associate's *actual* pre-tax earnings. Because this reflects true operating performance rather than market price fluctuations, this line item provides highly valuable "look-through" earnings for investors. A one-quarter reporting lag is typical.

Balance sheet effect: The carrying value of each associate is adjusted quarterly for Fairfax's share of profits, less dividends received. The carrying value is captured in Fairfax's book value.

The Big Picture: From $143 Million to $1 Billion

From 2019–2021, Fairfax averaged $143 million annually in share of profit of associates. Then everything changed:

- 2022: $1.0 billion
- 2023: $1.0 billion
- 2024: $0.95 billion

The jump was both sharp and sustained. Two developments explain it.

1. A Much Larger Associates Portfolio

Fairfax's two most significant equity positions became associates:

- Poseidon/Atlas/Seaspan – added in 2019
- Eurobank – added in 2020

Together, these two businesses drive roughly 75% of all associate-level earnings. Their performance is the primary determinant of this income stream going forward.

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2. Earnings Power Within Associates Has Ramped Up

Eurobank: A Full Turnaround, Now the Standout

Eurobank has become the star performer. After an eight-year restructuring, the company is now benefitting from higher interest rates, strong GDP growth in Greece, and the highly successful Hellenic Bank acquisition. Its management team continues to execute at a high level.

Poseidon / Atlas / Seaspan: Growth Converting to Earnings

Poseidon's aggressive new-build strategy has expanded its containership fleet dramatically. Despite initial headwinds from higher interest rates, strong top-line expansion is now being reflected growing earnings. In his 2024 annual letter, Prem Watsa stated Poseidon is expected to generate over $600 million of net earnings in 2025. Fairfax owns 43%.

EXCO Resources: Volatile but Improving

EXCO performed well in 2024 despite weak natural gas prices. With major LNG export capacity coming online in the US in 2025–2026, pricing fundamentals are improving. Results, however, will continue to be lumpy.

Fairfax India: Mixed Results, But Upside Ahead

Associate-level results within FIH are included here. Sanmar was a material drag in 2024 (–$73 million), but its performance is expected to rebound in 2026.

Quiet Construction of a New Earnings Engine

Over the past five years, Fairfax has deliberately—and effectively—built a third major earnings engine: a diversified, high-earning group of equity-accounted associates. Even with portfolio reshuffling, this income stream has maintained roughly $1 billion of annual earnings.

Portfolio Changes: Sales and Shifts Out of the Associates Bucket

Five major holdings have moved out of the Associates category in recent years, reducing share of profit of associates by $322 million:

Equity Sales

- Resolute Forest Products (2022): –$159 million
- IIFL Finance (2023): –$45 million
    - Partial sale reduced ownership below 20%; now mark-to-market holding
- Stelco (2024): –$18 million

Take-Private Transactions

- Gulf Insurance Group (2023): –$43 million
    - Ownership increased to 97%; now consolidated in insurance
- Peak Achievement (2024): –$57 million
    - Ownership increased to 100%; now consolidated in non-insurance

Despite this $322 million reduction, associate earnings remained near the $1 billion mark due to exceptional performance at Eurobank and Poseidon.

Additions to the Associates Portfolio

The key new addition is Waterous III, an investment linked to Greenfire Resources (a long-life, low-decline thermal oil producer in Alberta). Fairfax made its initial investment in late 2024 and a large follow-on investment in 2025.

This holding will be one to watch in the coming years.

Share of Profit of Associates Forecast

2025 Estimate: $860 million

Drivers and tailwinds:

- Strong performance at Eurobank
- Strong growth at Poseidon
- Improving results at EXCO (strong natural gas prices) and Fairfax India

Headwinds:

- Stelco and Peak shifting out of associates (–$75 million)
- Waterous III YTD headwind (–$82 million), although Q3 results indicate improvement

2026 Estimate: $1.05 billion

Drivers:

- Strong performance at Eurobank and Poseidon
- Improving results at EXCO, Waterous III and Fairfax India

After sustaining several headwinds, the share of profit of associates income stream appears well positioned for renewed growth in 2026 and beyond.

Fairfax: Share of Profit of Associates								YTD	Est	Est
Updated: Nov 9, 2025	2021	2022	2023	2024	Q1 '25	Q2 '25	Q3 '25	2025	2025	2026
Eurobank	$162	$263	$438	$515	$105.7	$104.6	$140.4	$350.7	$510	$510
Poseidon (Atlas)	$70	$258	$150	$213	$80.5	$68.5	$67.9	$216.9	$285	$300
Quess	-$1	$7	-$47	$10	$2.4	-$29.1	$1.7	-$25.0	-$23	$5
EXCO	-$41	$82	$129	$40	-$7.1	-$13.0	$38.8	$18.7	$50	$75
Waterous Energy Fund III					-$59.5	-$38.7	$16.5	-$81.7	-$70	$50
Stelco			$24	$18						
Peak Achievement	$13	$8	$23	$57						
Resolute Forest Prod	$76	$159								
Fairfax India (ex IIFL)	-$7	$96	$107	$40	$19.8	$11.1	$22.3	$53.2	$65	$65
IIFL Finance	$41	$37	$45							
Gulf Insurance	$56	$53	$43							
Albinga							$4.1	$4.1	$8	$10
Digit	$5	-$11	$43	$60	$8.6	$27.4	$14.4	$50.4	$60	$60
All other	$28	$63	$68	$4	-$21.8	-$0.1	-$1.4	-$23.3	-$25	-$25
Grand Total	**$402**	**$1,015**	**$1,022**	**$956**	**$128.6**	**$130.7**	**$304.7**	**$564.0**	**$860**	**$1,050**

Non-Insurance Consolidated Companies

November 17, 2025

A Small Income Stream Today, with Outsized Potential Tomorrow

Non-insurance consolidated companies (NICC) might be the most interesting income stream at Fairfax today. It is the smallest contributor, yet appears poised to significantly increase in size and importance in the coming years. Or at least that is what I expect to happen. But in all fairness, I have been expecting improved results from this income stream for a couple of years now and it has been slow to materialize – in other words, I have been wrong.

What Is NICC?

Fairfax holds a large equity portfolio—about $26 billion at September 30, 2025 (including FFH-TRS at notional value). Holdings are grouped for accounting purposes into three categories, depending on ownership and influence. NICC consists of all holdings where Fairfax exercises control.

NICC holdings represent $4.2 billion, or approximately 16% of the total equity portfolio.

Fairfax: Equity Portfolio: Split by Accounting Treatment				
	Sept 30, 2025		Own / control	
A.) Mark to market	$12,821	49%	Own < 20%	
B.) Associates	$ 9,091	35%	Own 20 to 50%	Significant infl. but not control
C.) Consolidated	$ 4,175	16%	Own > 50%	Control
Total Equity Portfolio	**$26,088**	**100%**		

From an accounting perspective, the results of NICC are captured on the consolidated statements of earnings in **non-insurance revenue** and the **non-insurance expenses** line items.

What Companies Make Up NICC?

Below is a list of the companies (with a brief description of their primary business) that are included in NICC. They have been grouped into the segments Fairfax uses when it reports results.

Non-insurance Consolidated Companies	Primary Business
Restaurants & Retail	
Recipe	Franchisor, owner and operator of restaurants
Sleep Country	Specialty sleep retailer
Sporting Life Group	Canadian sports lifestyle retail organization (incl Golf Town)
Other	
Fairfax India	Invests in public and private Indian businesses
Thomas Cook India	
Thomas Cook India	Provider of integrated travel and travel-related financial services
Sterling Holiday Resorts	Owner and operator of holiday resorts
Other	
Grivalia Hospitality	Hospitality real estate investor, developer and manager
Peak Achievement	Designer, manufacturer and distributor of performance sports equipment
Meadow Foods	Provider of value-added milk, fats, fresh confectionary and plant-based ingred
AGT Food & Ingredients	Originator, processor and distributor of value-added pulses and staple foods
Dexterra Group	Provider of Infrastructure support services
Boat Rocker	Entertainment content creator, producer and distributor
Farmers Edge	Provider of advanced digital tools for agriculture

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Building Out a Third Economic Engine

In recent years, Fairfax has invested a significant amount of capital to grow NICC. These moves fall into three categories:

1. Increased Ownership in Existing NICC Holdings

Recipe Unlimited

- 2022: Ownership increased from 46% → 84% (cost: $342M)
- 2025: Increased to 100% (cost: $157M)
- 2025: Took private the Keg Royalties Income Fund

Sporting Group

- 2022: Ownership increased from 71% → 88.5% (funded from retained earnings)

2. Increased Ownership in Existing Associate Holding – Bumping it to NICC

Grivalia Hospitality

- 2022: Increased from 33.5% → 78.4% (cost: $195M)
- 2023: Reached 85.2%

Meadow Foods

- Nov 2024: Increased to 93.2% (cost: $82.6M)

Peak Achievement

- Dec 2024: Increased from 42.6% → 100% (cost: $439.3M)

3. New Acquisition

Sleep Country

- Oct 2024: 100% ownership (cost: $880.6M)

From buying significantly more of companies it already owned and with a new acquisition, Fairfax has significantly expanded the size and future earnings power of NICC.

Financial Performance: Revenue Rising, Under Earning

Over the past five years, NICC revenue has grown 82%, to an estimated $8.6 billion in 2025 (CAGR of 12.7%).

However, reported earnings lagged:

- 2020 – 2023: Pre-tax income averaged just $12 million/year.
- The issues were Covid impacts and recurring one-time write downs in poorly performing legacy holdings.

The outlook has significantly improved:

- Covid-affected businesses have recovered.
- Fairfax has been on a seven year journey fixing poorly performing legacy equity holdings and with the fix at Boat Rocker earlier this year, they appear done.
- One-time write-offs should now be less of an issue.

Pre-tax income jumped to $212M in 2024, and performance is trending even higher in 2025.

Fairfax - Non-insurance Consolidated Companies - 5-Year Transformation

	Revenue			A	B	A + B	
	$ m	Change		Pre-tax Income*	Write Offs	PTI + WO	'One-time' losses/writedowns
2020	$4,742	n/a	n/a	-$126			Covid was a significant headwind for many of the companies
2021	$5,158	$415	9%	$65			Covid remained a headwind
2022	$5,582	$424	8%	$61	$133	$194	Farmers Edge ($133.4 impairment)
2023	$6,615	$1,033	19%	$46	$204	$250	Farmers Edge ($112), Boat Rocker ($26), Grivalia Hospitality ($66)
2024	$6,683	$69	1%	$212	$119	$331	Farmers Edge ($52), Grivalia Hospitality ($67)
2025E	$8,625	$1,942	29%	$360	$109	$469	Boat Rocker ($108.6)
5-Year Increase		**$3,882**	**82%**				
5-Year CAGR			**12.7%**				

* Pre-tax income (loss) before interest expense; excludes interest and dividends, share of profit (loss) of associates and net gains (losses) on investments.

NICC Forecast: Earnings Step-Up Ahead

2025 Estimate: $360 million pre-tax income

Up from $212 million in 2024.

Key drivers:

- Strong operating results from core businesses, including full-year contributions from Sleep Country, Peak Achievement, and Meadow Foods
- A one-time loss of $108.6 million at Boat Rocker in Q1 (folded into Blue Ant)

2026 Estimate: $450 million pre-tax income (Yes, this is a conservative estimate.)

Key drivers:

- Strong operating results from core businesses
- Smaller one-time charges

How much of each holding does Fairfax own? And what is the value?

The table below provides a summary at December 31, 2024 (from page 16 of Fairfax's AR):

The excess of market value over carrying value was ~$700 million. This is economic value that has been created by Fairfax that is not captured in the company's accounting results (EPS and BV).

Non-insurance Consol. Companies		Fairfax's	Market Value		Carrying Value		Excess of
December 31, 2024	Shares	Ownership	Per share	Total	Per share	Total	MV > FV
Restaurants & Retail							
Recipe (1)	49.4	84.0%	$13.54	$669	$13.54	$669	$0
Sleep Country		100.0%		$541		$541	$0
Sporting Life Group		88.5%					
Fairfax India (2)	57.6	43%	$15.82	$911	$11.79	$679	$232
Thomas Cook India	300.3	64.6%	$2.29	$688	$0.73	$220	$468
Other							
Grivalia Hospitality	339.4	85.2%	$1.38	$470	$1.38	$470	$0
Peak Achievement		100.0%		$426		$426	$0
Meadow Foods		93.0%		$297		$297	$0
AGT Food & Ingredients		59.6%					
Dexterra Group	31.4	49.3%	$5.42	$170	$3.08	$97	$73
Boat Rocker	25.3	44.9%	$0.40	$10	$3.23	$82	-$72
Other				$18		$18	
Total ($m)				**$4,200**		**$3,499**	**$701**

(1) Market value shown for unlisted consolidated stocks is Fairfax's carrying value

(2) Fairfax has voting control over Fairfax India, Dexterra and Boat Rocker.

Net Gains (losses) on Investments - Including Large One-Time Gains

November 17, 2025

Investment gains are the fifth and final income stream in our model. For much of Fairfax's history, this was the company's single largest source of earnings. That dynamic has changed dramatically over the past four years. More below.

What This Income Stream Includes

This bucket combines two line-items from our forecast model:

- Net gains (losses) on investments.
- Gain on sale/deconsolidation of insurance subsidiary – large gains that usually resulted from the sale/revaluation of an insurance subsidiary.

We include large one-time transactions in this bucket – for both insurance and non-insurance. This approach helps us understand what happened in the past (with insurance). And helps us build our forecast in an easy-to-understand way for future years.

But before we get into the weeds, let's take a step back.

Understanding Volatility

> "We regard any annual figure for realized capital gains or losses as meaningless, but we regard the aggregate realized and unrealized capital gains over a period of years as very important."
>
> *Warren Buffett – Berkshire Hathaway 1984AR*

Investment gains are highly volatile from year to year. They matter enormously in the long run, but they are impossible to forecast precisely over a 12-month period (this is kind of a dumb thing to even attempt). But we need to come up with a number to do an earnings estimate. Our solution? Use a three year rolling average – what we consider to be a 'normalized' amount. This approach is not perfect… but it works for us.

Where Investment Gains Come From

Fairfax's investment portfolio totals roughly $75 billion, split between:

- Fixed income: 66%
- Equities: 34%

Gains are generated in two primary ways:

1. Unrealized Gains

Driven by mark-to-market changes in value:

- Fixed income: movements in interest rates
- Equities (mark to market holdings): changes in share prices

Unrealized gains are recorded each quarter.

2. Realized Gains

Triggered by:

Asset sales (fixed income, equities, and insurance assets):

- 2022: Pet Insurance – $1.2B gain
- 2023: Ambridge – $259M
- 2024: Stelco – $366M
- 2025: Sigma – $179M
- 2025: Eurolife ~ $250M (expected to close in Q1, 2026)

Asset revaluations:

- 2023: Gulf Insurance Group – $280M
- 2024: Peak Achievement – $203M

Four-year total: about $2.7B, or $680M per year.

The magnitude is large; the timing is unpredictable. Asset sales and revaluations are an important part of Fairfax's capital allocation framework and need to be incorporated into earnings models.

Net Gains (Losses) on Investments Forecast

2025 Estimate: $2.625 billion.

Through nine months of 2025, Fairfax has recorded $2.45B of investment gains—already an exceptionally strong year. The only major realized item in 2025 is:

- Q1 2025: Sigma – $178.7M gain

For Q4 2025, we model a conservative $175M in additional gains.

Net gains (losses) on investments

- Net gains on investments of $426.2 and $2,434.3 in the third quarter and first nine months of 2025 consisted of the following:

	Third quarter 2025			First nine months 2025		
	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses) on investments	Net realized gains (losses)	Net change in unrealized gains	Net gains (losses) on investments
Equity exposures	23.9	500.7	524.6	617.0	1,487.5	2,104.5
Bonds	(14.4)	(29.9)	(44.3)	(212.9)	631.8	418.9
Other	(159.2)	105.1	(54.1)	(421.8)	332.7	(89.1)
	(149.7)	575.9	426.2	(17.7)	2,452.0	2,434.3

2026 Estimate: $1.05 billion

The five-year average (2021–2025E) is $1.47B. Given 2025 is tracking so high ($2.6 billion) we are going with a conservative estimate for 2026, with our basic assumptions as follows:

1. Fixed Income (Bonds)

- Assumption: interest rates remain at Sept 30, 2025 levels
- Estimated gains: $0

2. FFH Total Return Swap (1.76M shares of Fairfax exposure)

- Assumption: FFH share price +$200 in 2026
- Impact: $350M

3.) Mark-to-Market Common Stock Portfolio (excluding TRS)

- Portfolio value: $9B
- Assumption: +8% return in 2026
- Impact: $700M

Gains on Sale/Deconsolidation of Insurance Subsidiaries Forecast

This bucket captures large, irregular gains from the sale or revaluation of insurance or non-insurance holdings.

2025 Estimate: $0

Beyond Sigma (already captured above), we assume no major monetization in 2025.

2026 Estimate: $250 million

The five-year average (2021–2025E) is $400M, so again we are conservative.

The forecast for 2026 is effectively met:

- October 13, 2025: Fairfax announced the sale of Eurolife's life insurance business in Greece to Eurobank
- Expected pre-tax gain: ~$250M
- Expected close: Q1 2026

It is likely that Fairfax will realize/harvest at least one more large investment gain in 2026. What will it be? It is impossible to say. However, significant hidden value is residing on Fairfax's balance sheet. The best example is excess of fair value over carrying value of non-insurance associate and consolidated holdings that sits at $2.5 billion at September 30, 2025. This is value that has been created by Fairfax that has not been reflected in financial results (EPS and BV). There are other examples, like Ki and BIAL. Yes, this bucket will be lumpy. And we are ok with that.

Sale of Eurolife life insurance operations to Eurobank

On October 13, 2025 the company announced that it had entered into a term sheet with Eurobank pursuant to which Eurobank will acquire the company's 80.0% equity interest in the life insurance operations of Eurolife for cash consideration of approximately $940 (€813.0), which is expected to result in an estimated pre-tax gain on closing of approximately $250, inclusive of foreign currency translation gains of approximately $25 that will be reclassified from accumulated other comprehensive income (loss) to the consolidated statement of earnings. The company will continue to maintain its 80.0% equity interest in Eurolife General, the property and casualty insurance business operated by Eurolife. Concurrently, the company will purchase a 45.0% equity interest in Eurobank's Cyprus non-life insurance company ERB Asfalistiki ("ERBA") for cash consideration of approximately $68 (€59.0), with an option to acquire the remainder of ERBA in the future. The proposed transactions are subject to entry into definitive agreements and customary closing conditions and are expected to close in the first quarter of 2026.

Total Effects of Discounting and Risk Adjustment – IFRS 17

November 17, 2025

A Brief Background

Effective January 1, 2023, all Canadian insurance companies—both P/C and life—were required to adopt IFRS 17. This new accounting standard represents a major shift from the previous Canadian GAAP framework and is fundamentally different from US GAAP.

For readers who want a deeper dive into IFRS 17, the following link provides more details:

https://www.atlas-mag.net/en/category/tags/special/ifrs-17-standard

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Why This Matters for Fairfax

The new accounting standard significantly changes the way insurance results are presented.

However, we much prefer the old format (income statement) for the following reasons:

- It makes the insurance results easier to understand and analyze.
- It allows for easier comparison to:
    - US peers, and
    - Fairfax's own historical results.

As a result, for our earnings model we have decided to continue to use the old version of Fairfax's income statement.

Earnings Estimates: IFRS 17

Not being an accountant, it is a challenge for me to come up with this number.

However, we can back into it. We get all the other numbers from Fairfax. So IFRS 17 becomes a plug number for us (along with Life Insurance and Runoff).

We begin the year with a forecast for both line items (IFRS 17 and Life Insurance and Runoff). As year actualizes, we combine the two line items into one actual number.

Yes, this is a little clunky. But it works for us.

Immediate Impact on Fairfax (as of January 1, 2023)

The adoption of IFRS 17 triggered several important changes:

1. A One-Time Increase in Shareholders' Equity

- Fairfax's equity increased by $2.4 billion upon adoption.
- Book value per share rose by roughly $105 to $762.

2. Restated 2022 Results

Like all insurers, Fairfax was required to restate 2022 financials under IFRS 17. This ensures apples-to-apples comparability between 2022 and 2023 reported results.

Note: The 2022 figures in our earnings model are still the pre-restatement numbers. I am not sure if I will update my spreadsheet.

Comments from Prem Watsa - Fairfax's Q1-2023 conference call:

> Beginning January 1, 2023, we were required to adopt IFRS 17 accounting. This has resulted in many changes to our financial statements. The most significant change being the discounting of our insurance liabilities and the provision of a specific risk margin for the uncertainty. I want to

stress that this new reporting requirement will not change the way we manage the business. And we will continue to focus on underwriting profit on an undiscounted basis with strong reserving. We will continue to show our combined ratios and operating income on an undiscounted basis.

Preparing for this transition has been a massive amount of work over multiple years for our accounting, actuarial and finance teams all across the world, and particularly for Jen Allen, our Chief Financial Officer, and her small team at Fairfax, a big thank you to all. *Prem Watsa - Fairfax Q1 2023 CC*

Average Tax Rate

November 17, 2025

Fairfax's tax rate averaged 18.4% from 2021 to 2023. It ticked higher in 2024 to 24.4%. See below for the reasons why.

The level of investment gains is a big swing factor from year to year. Because gains are generally taxed at lower rates, years with outsized investment gains naturally produce a lower effective tax rate—and vice versa.

Given all the noise with taxes in 2024, it would be helpful to get an update from Fairfax on what a 'normalized' tax rate is for the company moving forward.

Average Tax Rate Forecast

2025 Estimate: 20%

Through the first nine months of 2025, the effective rate averaged ~19%, reflecting elevated investment gains during the period.

2026 Estimate: 21%

The expected increase versus 2025 reflects a return of investment gains closer to Fairfax's long-term historical averages.

What Drove the Higher Tax Rate in 2024?

Fairfax's tax rate ticked higher in 2024. Where Fairfax's new 'normalized' tax rate settles once all the dust has settled will be something to monitor moving forward.

Comments from Fairfax's Q3 2024 conference call:

Question: Tom MacKinnon

A question with respect to the tax rate - you know, it used to track kind of in the low 20s, maybe, and now it's been sort of closer to 25%. How should we be thinking about that going forward?

Answer: Peter Clarke

Hey, thanks for the question, Tom. Yes, the tax rate is elevated in the quarter, and there's a lot of things going on, as you might know, on the tax side; but why don't I pass it to Jen, who can give us a little more detail?

Answer: Jennifer Allen

Yes, thanks Tom. As Peter indicated, there are a lot of moving parts within the global tax regime. **As you indicated, our effective tax rate is sitting at 25.1%, elevated over 2023.** A couple things driving that - in 2024, we now are under the global minimum tax, where there is a 15% mandated tax in certain jurisdictions that we didn't have prior, primarily being in Bermuda, so on a YTD basis included in that number is about $107 million, about $30 million expense in the quarter. We also have a change in the tax rate legislation in India, where they changed their long-term capital gains rate - that also cost us another about $50 million in the quarter.

There's a couple of other things we're still closely watching, which is the interest limitation tax rule that's in place - currently no impact materially on our financials, but there could be, that's where the 30% limitation rule could come into play at the holding company, and then we're still tracking quite closely the capital gains rate, the inclusion rate change that's coming in Canada as well, so as Peter indicated, a lot of moving parts on tax. **I think trying to normalize what that effective tax rate would be is a little difficult, but I would say it is going to be elevated from prior year. If you kind of put in maybe a 22% to a 25%, you're probably going to be in the ballpark where we'll land.**

Economic Earnings and Excess of FV over CV - Are Investors Paying Attention?

May 11, 2026

Do Only Reported Accounting Results Matter?

Successful investing is centred on properly estimating the intrinsic value of a business. Reported accounting results — EPS and BVPS — are a good starting point. But accounting results can also be incomplete. To understand the true economic performance of a company, investors often need additional measures.

With a little help from Warren Buffett, that is the topic we tackle in this post.

For Fairfax, reported EPS and changes in BVPS provide an incomplete picture of the growth in economic/intrinsic value occurring at the company each year. Investors need to supplement the accounting measures with additional information. Fortunately, Fairfax provides the disclosures needed to do exactly that.

Markets Are Efficient… Except When They Aren't

Having an information advantage can be a wonderful way to make money.

But markets are efficient… right? Everything known about a company is supposedly reflected in its share price.

Of course, that is complete garbage. Especially for misunderstood, under-followed, and under-appreciated companies like Fairfax Financial Holdings.

The interesting thing is Fairfax has actually done a very good job helping investors understand the company. Despite that, many investors still do not appear to be paying attention. As a result, they underestimate the company's past economic performance, which then causes them to underestimate future performance and undervalue the business.

What are we talking about?

Read on, grasshopper…

How Investors Traditionally Value P/C Insurers

Investors are taught to value P/C insurance companies primarily using two metrics:

1. Return on Equity (ROE) = EPS ÷ average BVPS
2. Price-to-Book (P/BV) = Share Price ÷ BVPS

- ROE communicates how much the company is earning today.
- P/BV communicates what investors expect future earnings to be.

This framework works well for most P/C insurers because their investment portfolios are primarily invested in bonds, which are relatively easy to value. As a result, accounting results tend to closely mirror economic results, making intrinsic value easier to estimate.

The Ugly Ducklings – Berkshire Hathaway, Markel and Fairfax

Not all P/C insurers primarily own bonds. Berkshire Hathaway, Markel Group, and Fairfax all allocate significant portions of their investment portfolios to equities.

But an important distinction needs to be made.

Publicly traded stocks that are marked-to-market are not the issue. Yes, they are volatile. But over time, Mr. Market tends to value publicly traded securities reasonably well, meaning their changing value eventually flows through EPS and BVPS.

The issue lies with associate and consolidated equity holdings.

Because of how accounting rules work, the economic value (fair value/market value) of these holdings can diverge significantly from their accounting value (carrying value). Given enough time, the gap between fair value (FV) and carrying value (CV) can become very large.

The result is reported EPS can chronically understate the increase in economic/intrinsic value occurring at the company. Since EPS feeds BVPS, book value can also become materially understated over time.

Eventually, BVPS becomes a poor tool for valuing the company.

That is exactly what happened at Berkshire Hathaway.

What Was Warren Buffett's Solution?

In Berkshire Hathaway's 2018 annual report, Buffett effectively banished book value from existence.

For Berkshire shareholders, it was a seismic shift. For 53 years Buffett had trained investors to focus on book value. Then suddenly… poof… it was gone.

Why?

Because book value had "lost the relevance it once had" as a valuation tool.

Buffett explained why in Berkshire Hathaway's 2018 annual report:

"The fact is that the annual change in Berkshire's book value … is a metric that has lost the relevance it once had."

Buffett then outlined three reasons:

- Berkshire's value had increasingly shifted from marketable securities to operating businesses.
- Accounting rules materially understated the value of Berkshire's operating companies.
- Share repurchases completed above book value but below intrinsic value caused intrinsic value per share to rise while book value per share declined.

The book-value scorecard had become increasingly disconnected from economic reality.

Here is the complete text of what Buffett had to say in Berkshire Hathaway's 2018AR:

"Long-time readers of our annual reports will have spotted the different way in which I opened this letter. For nearly three decades, the initial paragraph featured the percentage change in Berkshire's per-share book value. It's now time to abandon that practice.

"The fact is that the annual change in Berkshire's book value – which makes its farewell appearance on page 2 – is a metric that has lost the relevance it once had. Three circumstances have made that so.

- First, Berkshire has gradually morphed from a company whose assets are concentrated in marketable stocks into one whose major value resides in operating businesses. Charlie and I expect that reshaping to continue in an irregular manner.
- Second, while our equity holdings are valued at market prices, accounting rules require our collection of operating companies to be included in book value at an amount far below their current value, a mismark that has grown in recent years.
- Third, it is likely that – over time – Berkshire will be a significant repurchaser of its shares, transactions that will take place at prices above book value but below our estimate of intrinsic value.

"The math of such purchases is simple: Each transaction makes per-share intrinsic value go up, while per-share book value goes down. That combination causes the book-value scorecard to become increasingly out of touch with economic reality." *Warren Buffett - Berkshire Hathaway 2018AR*

The Same Dynamics Are Emerging at Fairfax

Over the past six years, Fairfax has aggressively expanded its associate and consolidated equity holdings. Fairfax now has more than $26 billion in equity investments, with more than $13 billion classified as associate and consolidated holdings.

Importantly, the fair value of these holdings has increasingly diverged from their carrying value. As a result, EPS and BVPS are becoming less useful measures of Fairfax's true economic performance. The problem has been building for years — and it is getting worse.

Adding to the complexity, Fairfax has also been highly aggressive with share buybacks over the past eight years. Like Berkshire, Fairfax has repurchased shares above book value but below intrinsic value, which further weakens the usefulness of BVPS as a valuation tool.

Fairfax's Disclosure: A Roadmap Investors Should Use (But Most Don't)

Unlike Berkshire Hathaway, Fairfax has not abandoned book value. At least not yet.

Instead, Fairfax provides investors with an important supplemental disclosure: "excess (deficiency) of fair value over adjusted carrying value" for its non-insurance associate and consolidated equity holdings.

This disclosure captures economic value creation that is not reflected in EPS or BVPS.

Here is what Fairfax states when it reports results:

> "Those amounts, while not included in the calculation of book value per basic share, are regularly reviewed by management as an indicator of investment performance."

That is an important statement.

What Do the Historical Numbers Tell Us?

The size of this group of holdings (fair value) has grown rapidly:

- 2020: $4.5 billion
- Q1-2026: $12.8 billion
- Increase: $8.3 billion, or 183%

Importantly, the fair values have grown much faster than carrying values, causing excess FV over CV to expand materially:

- 2020: -$662 million
- Q1-2026: $3.922 billion
- 5.25-year increase: $4.6 billion
- 5.25-year average increase: $873 million, or $39 per diluted share (pre-tax)

That is a meaningful amount of value creation not captured in Fairfax's reported results.

Of note: Eurobank has had a strong start to Q2. Shares are up $844 million. Setting the stage for another meaningful increase in 2026.

Poseidon sale?

Excess of FV over CV for Non-Insurance Associate and Consolidated Companies							
11-May-26	2020	2021	2022	2023	2024	2025	Q1-2026
Fair Value	$4,486	$6,246	$7,747	$9,617	$11,583	$11,649	$12,821
Carrying Value	$5,148	$5,900	$7,507	$8,611	$10,103	$8,509	$8,899
Excess of FV over CV	-$662	$346	$240	$1,006	$1,480	$3,140	$3,922

Change in Excess of FV Over CV Forecast

Fairfax's equity portfolio is having a very strong year in 2025, driven largely by associate and consolidated holdings.

At September 30, 2025, excess FV over CV had reached $2.5 billion, an increase of $1.0 billion in just nine months.

2025 Estimate

- Increase: $1.1 billion
- Per diluted share: $48 (pre-tax)

This would bring total excess FV over CV to approximately:

- $2.6 billion
- $114 per diluted share (pre-tax)

2026 Estimate

- Increase: $300 million
- Per diluted share: $13 (pre-tax)

Importantly, the average annual increase from 2020 through 2025E is tracking around $650 million. So yes — our 2026 estimate is very conservative.

An Important Source of Future Investment Gains

Fairfax has multiple ways to monetize the gains embedded in FV–CV:

- Asset sales: Stelco (2024) generated a realized gain of $352 million.
- Asset revaluations triggered by ownership changes: Peak (2024) generated a realized gain of $203 million.

In coming years, the value sitting in FV–CV should provide Fairfax with a meaningful stream of future investment gains. The exact timing and amount are impossible to predict, but when gains are realized they will flow through the accounting statements and boost EPS, BVPS, and ROE.

Conclusion

> "You can lead a horse to water, but you can't make it drink."

For P/C insurers, EPS, BVPS, and ROE remain important metrics for evaluating both company performance and management effectiveness. But for a company like Fairfax, they are incomplete.

The traditional tools need to be supplemented with additional ones — like FV–CV.

Of course, the tool only has value if investors actually use it.

Most do not.

Interestingly, analysts largely ignore FV–CV as well. It is rarely incorporated into models, estimates, or commentary. Given its growing size and importance to the Fairfax story, that seems like a major omission.

So, the next time you speak with someone about Fairfax, ask them whether they incorporate FV–CV into their analysis.

If they do not know what you are talking about, that probably tells you something about how well they understand the company.

FV – CV: Recent Summary

Below is a review of the largest associates and consolidated holdings from Fairfax's Q3-2025 interim report.

Excess (deficiency) of fair value over adjusted carrying value

The table below presents the pre-tax excess (deficiency) of fair value over adjusted carrying value of investments in non-insurance associates and market traded consolidated non-insurance subsidiaries the company considers to be portfolio investments. Those amounts, while not included in the calculation of book value per basic share, are regularly reviewed by management as an indicator of investment performance. The aggregate pre-tax excess of fair value over adjusted carrying value of these investments at September 30, 2025 was $2,491.2 (December 31, 2024 - $1,480.5).

	September 30, 2025			December 31, 2024		
	Fair value	Adjusted carrying value	Excess (deficiency) of fair value over adjusted carrying value	Fair value	Adjusted carrying value	Excess (deficiency) of fair value over adjusted carrying value
Non-insurance associates[1]:						
Eurobank	4,508.8	2,666.8	1,842.0	2,923.5	2,374.8	548.7
Poseidon	2,046.3	2,002.0	44.3	2,046.3	1,858.5	187.8
Other non-insurance associates	2,618.9	2,749.9	(131.0)	2,425.1	2,382.6	42.5
	9,174.0	7,418.7	1,755.3	7,394.9	6,615.9	779.0
Non-insurance companies[2]:						
Fairfax India	985.2	667.7	317.5	910.9	678.6	232.3
Thomas Cook India	530.4	222.5	307.9	687.5	220.3	467.2
Other non-insurance companies[3]	214.5	104.0	110.5	180.6	178.6	2.0
	1,730.1	994.2	735.9	1,779.0	1,077.5	701.5
	10,904.1	8,412.9	2,491.2	9,173.9	7,693.4	1,480.5

FV – CV: A Detailed Review from 2020 to 2024

Below is a comprehensive summary for each of the holdings that covers the past 4 years. It shows the growth in the value of the various holdings. It also shows when positions were added, subtracted or when they changed (from associates to consolidated).

Fairfax - Excess of Fair Value over Carrying Value - Measuring the Change												
	Decemver 31, 2024			December 31, 2023			December 31, 2022			December 31, 2021		
$ million	Fair Value	Adjusted Carrying Value	Excess (Defic.) FV over CV	Fair Value	Adjusted Carrying Value	Excess (Defic.) FV over CV	Fair Value	Adjusted Carrying Value	Excess (Defic.) FV over CV	Fair Value	Adjusted Carrying Value	Excess (Defic.) FV over CV
Non-insurance Associates												
Eurobank	$2,924	$2,375	$549	$2,252	$2,099	$153	$1,345	$1,508	-$163	$1,210	$1,298	-$88
Poseidon / Atlas	$2,046	$1,859	$188	$2,046	$1,706	$340	$1,865	$1,506	$358	$1,286	$922	$364
Quess	$397	$426	-$29	$322	$430	-$108	$222	$447	-$225	$514	$492	$22
EXCO Resources	$460	$458	$2	$435	$418	$17	$545	$288	$257	$267	$195	$72
Helios Fairfax	$73	$163	-$90	$91	$198	-$107	$104	$183	-$79	$116	$206	-$90
Peak Achievement				$226	$129	$97	$195	$124	$71	$181	$141	$40
Resolute Forest Pr.				$0	$0	$0	$508	$508	$0	$377	$276	$101
Kennedy Wilson	$172	$172	$0	$143	$143	$0	$149	$149	$0	$125	$125	$0
Astarta	$72	$80	-$8	$0	$0	$0	$35	$104	-$69	$73	$104	-$31
Stelco				$492	$292	$200	$423	$305	$118			
All other	$1,239	$1,071	$168	$805	$792	$13	$284	$285	-$1	$391	$357	$34
Total	**$7,383**	**$6,604**	**$779**	**$6,812**	**$6,208**	**$604**	**$5,675**	**$5,407**	**$268**	**$4,542**	**$4,117**	**$425**
Non-insurance Consolidated Companies												
Fairfax India	$911	$679	$232	$875	$758	$117	$585	$517	$68	$535	$444	$91
Recipe / Cara	$669	$669	$0	$684	$684	$0	$525	$594	-$69	$317	$489	-$172
Sleep Country	$541	$541	$0									
Grivalia Hospitality	$470	$470	$0	$567	$567	$0	$409	$411	-$2			
Peak Achievement	$426	$426	$0									
Meadow Foods	$297	$297	$0	$0	$0	$0						
Thomas Cook India	$688	$220	$468	$490	$201	$288	$293	$214	$79	$259	$254	$5
Dexterra	$170	$97	$73	$136	$109	$27	$127	$103	$24	$215	$117	$98
Boat Rocker	$10	$82	-$72	$24	$84	-$60	$42	$104	-$62	$136	$110	$26
Farmers Edge							$5	$71	-$66	$64	$190	-$126
AGT Foods												
Other	$18	$18	$0	$29	$0	$29	$86	$86	$0	$178	$178	$0
Total	**$4,200**	**$3,499**	**$701**	**$2,805**	**$2,403**	**$401**	**$2,072**	**$2,100**	**-$28**	**$1,704**	**$1,783**	**-$79**
Non-insurance Associates and Consolidated Companies												
Total	**$11,583**	**$10,103**	**$1,480**	**$9,617**	**$8,611**	**$1,006**	**$7,747**	**$7,507**	**$240**	**$6,246**	**$5,900**	**$346**
YTD/YOY Change	Total		$475			$765			-$106			$1,008
	Per Share		$20			$30			-$4			$38
4-Year Average	Total		$536									
	Per Diluted Share		$21									

Economic EPS

November 17, 2025

Learning the Lesson of Missing the Big Money with Berkshire Hathaway

I have followed Berkshire Hathaway for decades. I understood the amazing abilities of Warren Buffett. And I understood the value of the P/C insurance model (float and equities).

How much money did I make from my "knowledge?"

Very little. Especially when compared to what Berkshire Hathaway delivered to its shareholders.

What was my big miss?

I was too focused on the accounting results. And completely missed the significant economic value that was being created. I also did not understand compounding and time. And I was too impatient.

I am determined to not make the same mistakes again - this time with Fairfax.

Value Creation Not Being Captured in Accounting Results

Excess of FV over CV (FV–CV) is one good example of value creation that is happening at Fairfax that is not showing up in EPS or BVPS. There are other examples.

Like what?

The FV for some of Fairfax's large associates and consolidated equity holdings looks understated.

A good example is Fairfax India. At September 30, 2025:

- CV ($11.59 per share) was significantly below FV ($17.25 per share – the stock price)
- FV was significantly below BVPS ($20.72)
- BVPS was significantly below intrinsic value (BIAL being the biggest driver).

Bottom line, the significant and growing gap between FV and intrinsic value at Fairfax India is another example of value that has been created that is not showing up in accounting results or FV–CV.

Calculating Economic EPS

Economic EPS = Reported EPS + Change in Excess of FV over CV (FV–CV)

Yes, this is a very crude estimate. In our calculation we use year-end diluted shares outstanding and assume a tax rate of 20%.

Economic EPS Forecast

2025 Estimate: $234 per diluted share ($195 + $38)

- Fairfax's equity investments are having a very strong year.

2026 Estimate: $201 per diluted share ($190 + $11)

- Given the very strong performance from equities in 2025, we are forecasting lower than normal amounts for both investment gains and FV–CV for 2026.
- As a result, our total forecast is conservative.

As can be seen from the chart below, Fairfax's economic EPS have been consistently coming in much higher than reported EPS. And given it only captures FV–CV, we feel this is a conservative estimate of economic EPS.

Six-Year Review – 2021 to 2026E

Excess of FV over CV for Non-Insurance Associate and Consolidated Companies						2025		
November 17, 2025	2020	2021	2022	2023	2024	Q3 QTD	2025E	2026E
Fair Value	$4,486	$6,246	$7,747	$9,617	$11,583	$10,904		
Carrying Value	$5,148	$5,900	$7,507	$8,611	$10,103	$8,413		
Excess of FV over CV	-$662	$346	$240	$1,006	$1,480	$2,491	$2,600	$2,900
Change YOY		$1,008	-$106	$766	$474	$1,011	$1,120	$300
Change YOY - Per Dilut Sh (pre-tax)		$38	-$4	$30	$20	$43	$48	$13
Change YOY - Per Dilut Sh (after-tax)		$30	-$3	$24	$16	$35	$38	$11
Reported Diluted EPS	$6	$122	$43	$173	$161	$156	$195	$190
Economic EPS (Reported + Ex FV CV)		$152	$40	$197	$176	$191	$234	$201

Chapter 3: Business Model

Introduction

Most investors—and many analysts—do not understand Fairfax particularly well. I include myself in that group; there is still plenty to learn.

The confusion is understandable:

- Fairfax is underfollowed
- It is complex and does not fit neatly into standard industry boxes models
- It has evolved meaningfully over four decades.
- It has been transformed again over the past 5 years.

As a result, the company is frequently misunderstood and underappreciated – and undervalued.

Too often, Fairfax is analyzed as if it were a conventional P/C insurance company. It is not. That framing overemphasizes underwriting results and materially underestimates the importance of the investment portfolio and, especially, capital allocation. Using the wrong model does not lead to better understanding, better decisions, or better outcomes. (Keep that in mind the next time you read an analyst report – or hear pundits discuss Fairfax on social media.)

So, what is Fairfax?

That is the question this Chapter aims to answer.

Fairfax's Business Model Explained

January 30, 2026

A Long-Term Capital Compounding Machine Built on Insurance Float, Decentralized Operations, and Disciplined Capital Allocation

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Overview: What Fairfax Actually Is

Fairfax is not a conventional P/C insurance company.

It is best understood as a capital-compounding system organized around three complementary business engines:

1. Insurance operations that generate large, durable, growing amounts of low-cost (often negative-cost) float
2. A flexible investment portfolio, spanning fixed income and public and private equities
3. A growing collection of wholly owned operating companies across industries and geographies

At the center of this system sits Prem Watsa and Fairfax's senior leadership team, including Hamblin Watsa, acting as central capital allocators.

Crucially, Fairfax's business model is not designed to maximizing near-term reported results. It is designed to compounding capital at above-average rates and to optimize per-share value creation over the long term – very much in the spirit of William Thorndike's The Outsiders.

Management states this objective clearly:

"We expect to compound our mark-to-market book value per share over the long term by 15% annually by running Fairfax and its subsidiaries for the long term benefit of customers, employees, shareholders and the communities where we operate – at the expense of short term profits if necessary." *Fairfax corporate website*

This philosophy is not marketing. It is embedded in how Fairfax is structured, capitalized, and run.

If this sounds familiar, it should. Fairfax clearly drew inspiration from Berkshire Hathaway's model of the 1980s and 1990s—while adapting that framework to its own temperament, opportunity set, and history.

Conglomerate-Light Structure: The Organizational Advantage

Fairfax operates what can best be described as a conglomerate-light structure—capturing most of the benefits of conglomerates while avoiding many of their traditional drawbacks.

Core Characteristics

- Small head office
- Highly decentralized operating businesses (attractive to founder-owners and entrepreneurial managers)
- Centralized capital allocation, with capital flowing to the best available opportunity

Benefits

- Optimize cash generation from operating units (insurance and investments)
- Efficient capital deployment – capital is not trapped in silos (for example, excess insurance capital in a soft market)
- Meaningful diversification across businesses, industries and geographies
- Greater financial strength and resilience
- A long term orientation that allows capital to be patient and opportunistic
    - Insurance: discipline through soft markets
    - Investments: ability to exploit volatility and pursue higher-return opportunities

Avoided Pitfalls

- Excessive bureaucracy and organizational bloat
- Difficulty identifying and fixing underperforming units
- Unchecked empire-building
- Keeping it small, size does not become an impediment

This organizational design is a foundational reason Fairfax's model works.

Engine 1: Insurance Float – The Structural Foundation

Insurance is the backbone of Fairfax's entire business model.

How Float Creates the Core Advantage

Insurance float represents premiums collected today that will be paid out in the future as claims. When underwriting is disciplined and profitable (combined ratio < 100), float becomes free capital—and in many years, better than free, because Fairfax generates underwriting profits while holding it.

Fairfax is able to invest the float and keep the return that it generates.

Why Float Is Superior Leverage

Insurance float is a form of leverage that is structurally superior to almost any alternative source of capital:

- Large and growing

- No fixed maturity (as long as underwriting remains disciplined)
- No contractual interest cost; often negative cost
- Extremely stable due to the scale and diversification of the insurance business
- Non-callable

This is low-risk leverage that cannot be replicated by most conglomerates, asset managers, or private equity firms.

Fairfax's Major Insurance Platforms

- Odyssey Group
- Allied World
- Brit
- Crum & Forster
- Northbridge
- Gulf Insurance Group

These operations are diversified by geography and line of business, reducing volatility and enhancing the durability of float.

Recent Performance Snapshot (Past Five Years)

- Total float has increased 59%
- Float per share has increased 98% (driven by aggressive share buybacks)
- Estimated underwriting profit in 2025: ~$1.7 billion

Put simply:

- The insurance business provides a $38.5B pile of capital (2025E)
- The pile is growing rapidly per share
- Fairfax is being paid handsomely to hold it
- And Fairfax keeps everything it earns on it

Yes—underwriting profit matters. But the much more important outcome is the large, durable, and growing float that Fairfax can invest for its own benefit.

Which brings us to Engine 2.

Fairfax - 5-Year Trend in Float, Combine Ratio and Underwriting Profit								5-Year Change	
		2020	2021	2022	2023	2024	2025E	$	%
Float	$ (b)	$24.3	$27.8	$31.2	$35.1	$36.9	$38.5	$14.2	59%
	Per Share	$927	$1,166	$1,339	$1,526	$1,703	$1,833	$906	98%
Combined Ratio		97.8%	95.0%	94.7%	93.2%	92.7%	93.5%		
Underwriting Profit (m)		$309	$801	$1,105	$1,522	$1,791	$1,679	$1,370	443%
Effective Shares (m)		26.2	23.9	23.3	23.0	21.7	21.0	-5.2	-20%

Engine 2: Investments – Compounding Float

The Investment Portfolio (~$77 billion)

Fairfax's investment portfolio represents the combined deployment of:

- Shareholders' equity (~$26.2B)
- Insurance float (~$38.5B)
- Holding-company debt (~$7.7B, excluding non-insurance companies)

This capital is invested with a long-term, largely unconstrained mandate – a critical structural advantage.

Fixed income (~$50 billion)

- Strengths: Predictable income, lower volatility, senior claim on capital, balance sheet stability
- Weaknesses: Limited upside, inflation erosion, poor long-term real returns

Bonds preserve capital and smooth results. Today, interest income has become one of Fairfax's most important and reliable income streams.

Equities (~$27 billion)

Fairfax has historically allocated significant capital to public and private equities

- Strengths: Ownership in growth, inflation protection over time, unlimited upside, superior long-term compounding
- Weaknesses: High volatility, uncertain short-term outcomes, last claim in distress

Stocks create wealth over the long term. Fairfax's largest public equity holdings were up $4.3B (47%) in 2025 alone. Performance over the past 5 years has been outstanding.

Fairfax Top 10 Publicly Traded Equity Holdings + FFH-TRS					
1-Year Performance Estimate		2025	2024	Change in MV	
		Dec 31	Dec 31	$ (M)	%
1	Eurobank	$4,739	$2,719	$2,020	74%
	Eurobank Dividends			$207	
2	FFH-Total Return Swap	$3,358	$2,448	$910	37%
3	Orla Mining	$1,034	$483	$551	114%
	Orla Mining Position Sold	$316	$139	$178	128%
4	Fairfax India	$996	$922	$74	8%
5	Metlen - Legacy	$473	$319	$154	48%
	Metlen - New Purchase	$141	$119	$23	19%
	Metlen - Dividend			$21	
6	Thomas Cook India	$497	$689	-$192	-28%
7	Commercial Indust. Bank	$466	$333	$133	40%
8	Foran Mining	$448	$334	$114	34%
9	John Keells	$312	$347	-$35	-10%
10	Dexterra	$266	$171	$96	56%
	Total Shareholder Return	**$13,047**	**$9,022**	**$4,253**	**47%**
	Per Fairfax Diluted Share			**$184**	

The Structural Return Advantage

Unlike traditional P/C insurers—who invest almost exclusively in bonds—Fairfax invests meaningfully in equities.

The result:

- Fairfax investment portfolio return: ~8.5%
- Typical P/C peers: ~5.5%

That return gap compounds massively over time. It is one of the most underappreciated advantages in Fairfax's business model.

Fairfax - Investments - 5-Year Review of Returns							5-Year
		2021	2022	2023	2024	2025E	Average
Total Portfolio at YE ($b)		$53.0	$55.5	$64.8	$69.0	$75.0	
Total Return	$m (1)	$5,831	$1,417	$6,228	$5,222	$7,560	
	% (2)	12.1%	2.6%	10.4%	7.8%	10.5%	**8.7%**
(1) Int & div + share of prof of assoc + non-ins consol + inv gains + change in ex of FV over CV							
(2) Return % is calculated using average investments							

Engine 3: Non-Insurance Operating Companies – Small Today, But Growing Fast

Fairfax owns a growing collection of non-insurance operating businesses:

- Recipe Unlimited & The Keg
- Sleep Country
- Peak Achievements
- Meadow Foods
- AGT Foods and Ingredients

This engine is small today, and management has no stated ambition to become a full Berkshire-style operating conglomerate.

So why treat it as a distinct engine?

Because it is growing rapidly.

Non-insurance consolidated companies are Fairfax's fastest-growing income stream, and they are becoming increasingly important to overall earnings power.

Strategic Benefits

- Greater diversification
- Another stable source of recurring cash flow
- Optional source of liquidity (assets can be sold)
- Increased resilience at the group level

These businesses complement the more volatile investment portfolio. How Fairfax develops this engine over the next decade will be worth watching closely.

Fairfax - Non-Insurance Consolidated Companies - Change in Pre-Tax Income

$ (m)	2021	2022	2023	2024	2025E	2026E
Pre-tax Income (1)	$65	$61	$46	$212	$360	$450

* Pre-tax income before interest expense; excludes interest and dividends, share of profit (loss) of associates and net gains (losses) on investments.

The Control System: Capital Allocation Is the Multiplier

Capital allocation is the most important responsibility of any management team. It determines long-term performance, growth in book value, return on equity, and ultimately the multiple assigned by the market.

When done well, capital allocation:

1. Delivers strong returns
2. Improves the quality of the business over time

At Fairfax, capital allocation does not generate returns on its own. It **amplifies** the returns produced by the three engines and **determines per-share outcomes over long periods**.

Unconstrained Capital Allocation

Fairfax operates with an unusually unconstrained approach to capital allocation. Over 40 years, management has built deep internal capabilities and a broad network of external relationships. Importantly, Fairfax is still a small company (size is not a constraint).

As a result, Fairfax can deploy capital across an unusually broad opportunity set, giving it a continuous flow of above average rate of return options.

The Opportunity Set

Fairfax can operate as:

- Fixed income investor
- Public equity investor
- Private equity investor
- Venture capital investor
- Venture debt / structured credit investor
- Incubator and platform builder
- Distressed and bankruptcy investor
- Turnaround investor
- Real estate investor
- Infrastructure investor
- Commodity and resource investor
- International and emerging markets investor
- Asset manager / permanent capital sponsor
- Cannibal / consolidation investor (buybacks, increased ownership)

Few companies enjoy this level of flexibility.

Best-In-Class Execution

Over the past five years, Fairfax has put on a clinic. Below are some examples of the breadth/range of their capabilities:

- Insurance: net premiums written doubled to ~$26.6B (over six years)
- Acquisition of Gulf Insurance Group in 2023
- Bonds: avoided the historic 2022 bond bear market (protected balance sheet)
- Equities: upgraded portfolio; delivering outstanding results, led by Eurobank
- FFH-TRS (2020/2021) provides exposure to 1.76 million shares at $373/share
- Digit IPO (2024) – insurance start-up in India (initial investment made in 2016)
- $2.1B PacWest real-estate construction loan purchase (2023), with Kennedy Wilson

- C$100M investment in Foran Mining (2021), exploration and development (copper)
- $150M convertible bond investment in gold producer Orla Mining (2024)
- Well timed asset sales – Pet Insurance, Resolute (2022), Stelco (2024), Orla (2025)
- Shares outstanding reduced 24.3% over eight years (at ~$734/share)

The list only scratches the surface.

The Results

The outcomes speak for themselves:

- BVPS CAGR: 17.1%
- Share price CAGR: 27.2%

This is best-in-class performance—and it is not close.

Importantly, these results are not driven by the insurance cycle. Insurance cycles exist. Financial markets exist. Fairfax's results are driven by capital allocation. That is the beauty of the model.

Peer Comparison - Summary of Key Valuation Metrics

	6-Year CAGR TSR (1)	5.75-Year CAGR BVPS (2)	Dec 31, 2025 P/BV (3)	Dec 31, 2025 P/E (4)
Fairfax	27.2%	17.1%	1.59	9.6
WR Berkley	16.1%	10.2%	2.72	15.5
Travelers	14.8%	5.9%	2.05	11.9
Berkshire B	14.2%	11.4%	1.55	17.8
Intact Fin (C$)	14.2%	11.9%	2.77	16.7
Chubb	13.5%	7.2%	1.71	12.9
Markel	11.1%	10.5%	1.50	14.2

(1) Total Shareholder Return - share price increase + dividends
Dec 31, 2019 to Dec 31, 2025
(2) 5.75 CAGR - Dec 31, 2019 to Sept 30, 2025
(3) Share price at Dec 31, 2025; BV at Sept 30, 2025
(4) Share price at Dec 31, 2025; analyst est at Dec 12, 2025

Bottom Line

Fairfax has spent four decades refining its business model. Roughly five years ago, the pieces finally aligned. Management learned how to fully exploit a framework inspired by Berkshire Hathaway—adapted to Fairfax's own strengths.

The model is simple in concept:

- Acquire capital cheaply

- Deploy it rationally
- Avoid permanent loss
- Let compounding do the heavy lifting

With each passing year, the picture becomes clearer:

- Insurance: performing at a high level; never better positioned
- Investments: performing at a high level; never better positioned
- Capital allocation: best-in-class

All parts of the company are working together. Earnings are larger, higher quality, and more resilient across cycles. Shareholder returns have been exceptional.

The best part?

This version of Fairfax is just getting started.

The runway is long.

It is an exciting time to be a Fairfax shareholder.

How Has Fairfax's Business model Changed Over the Years?

January 24, 2026

Has Fairfax's business model changed over the years?

Yes—dramatically.

While Fairfax's core philosophy has remained consistent for four decades, the expression of that philosophy has evolved meaningfully. The company has repeatedly adapted its insurance operations, investment framework, and capital allocation approach in response to hard-earned lessons, changing market conditions, and a steadily growing capital base.

What follows is a clear, phase-by-phase overview of that evolution.

Phase 1 (1985–2000): Scale Insurance + Value Investing

Insurance: Scale and Learn

- Aggressive growth through acquisitions
- Primary objective: grow float and achieve scale

Investments: Make Money with Investments

- Traditional Ben Graham-style value investing
- Investments were expected to be the primary profit driver

Summary:

This was Fairfax's foundation-building phase. The focus was on rapid growth, learning the insurance business, and leveraging float through value investing. Scale came first; refinement would come later.

Phase 2 (2001–2010): Digest Insurance + Value Investing

Insurance: Digest and Learn Painful Lessons

- Worked through significant reserving problems
- Shifted from expansion to stabilization and repair

Investments: (Still) Make Money—Spectacularly So

- Continued value-oriented investment approach
- Extraordinary success with CDS and equity hedges during the 2008 financial crisis

Summary:

This period was defined by humility on the insurance side and brilliance on the investment side. Fairfax learned—painfully—that insurance quality mattered far more than previously appreciated. At the same time, the success of CDS and hedges planted the seeds for a later big mistake.

Phase 3 (2011–2020): Improve Insurance + Play Extreme Defense

Insurance: Steady Quality Improvement + Acquisition-Driven Growth in a Soft Market

- Andy Barnard appointed to lead insurance operations in 2011
- Underwriting profit becomes the central focus
- Quality improvement began with existing operations
- In a soft market, growth pursued primarily via acquisitions – with quality as a priority:
    - Allied World, Brit, International, Zenith

- Global footprint expanded
    - Strategic pivot in India (sale of ICICI Lombard; seeding of startup Digit)

Investments: A Lost Decade

- Heavy use of equity hedges and shorts proved costly
- Equity investment framework deteriorated:
    - Result was too many "chronically leaking boats" across the portfolio

Summary:

This period was defined by brilliance on the insurance side and humility on the investment side – the opposite of the prior period. While insurance quality steadily improved, defensive investment positioning overwhelmed results and masked the progress being made inside the insurance operations.

Key inflection points:

- Equity hedge exited 2016
- Final short position closed in 2020
- Equity investment framework refined around 2018

Phase 4 (2021–Present): The Insurance-Float Compounding Machine

This is where the transformation becomes unmistakable.

Insurance: A High-Quality Business, Rapid Growth in a Hard Market

- Continued underwriting discipline under Andy Barnard and Brian Young
- Shift from acquisition-driven growth to organic growth, exploiting a hard market
- Insurance earnings are now larger, more consistent, and higher quality than ever

Investments: A High Quality Business Delivering Exceptional Results

- Clear shift to high-quality equities: strong management teams, solid balance sheets, and sustained profitability
- Chronic underperformers addressed decisively: sold, merged, taken private, or wound down
- Equity holdings performing exceptionally well
    - Eurobank stands out as a flagship success

Capital Allocation: Best-in-Class Execution

- Fixed income: avoided the historic 2022 bond bear market (by being very short duration)
- Asset sales: pet insurance, Resolute Forest Products, Stelco, Orla
- Fairfax total return swap: opportunistic and unconventional
- Share buybacks: ~24% reduction in shares outstanding over eight years, executed at very low prices

Summary:

This period has been defined by brilliance on both the insurance and investing sides of the business. Capital allocation has been exceptional. All parts of the business model are working together (complementary/synergistically). As a result, earnings have been transformed – much larger, higher quality and more resilient across cycles.

So—Is Fairfax's Business Model Different Today?

At its core: no.

In practice: very much so.

The foundational model remains:

- Insurance float
- Decentralized operating companies
- Centralized capital allocation

But its modern expression reflects decades of learning.

The Bigger Lesson – Resilience and Strength

Fairfax made meaningful missteps over the years:

- Early on, with insurance quality and reserving
- Later, with equity hedges and short positions

Yet despite those mistakes, Fairfax compounded its share price at approximately 19% annually for 40 years (US$, dividends reinvested). That is an exceptional record—and a powerful testament to the underlying strength of the business model.

Today, for the first time in the company's history:

- Insurance and investments are *both* high-quality businesses
- Capital allocation is operating at a best-in-class level

This is a version of Fairfax we have never seen before—and it is the best version we have ever seen. Fairfax has become a true compounding machine.

Fairfax's Business Model – An Income Stream View

January 31, 2026

Seeing the Full Picture

To better understand Fairfax, it helps to look at the company in different ways.

Most investors analyze Fairfax through the lens of a traditional P/C insurance company. That framework misses the essence of the business. In this post, we instead view Fairfax through its six income streams—the underlying sources that drive reported earnings and long-term growth in economic (intrinsic) value.

This framework does three important things:

1. It connects Fairfax's business model directly to its income statement and balance sheet
2. It highlights how Fairfax differs fundamentally from conventional P/C insurers
3. It explains why Fairfax is uniquely positioned to continue compounding capital at above-average rates of return

Seen this way, Fairfax is not simply an insurer. It is a capital compounding platform with multiple, reinforcing earnings engines.

The Six Income Streams

Fairfax's results are driven by six distinct income streams. Five are accounting streams that appear directly on the income statement. The sixth is an economic adjustment that captures value creation not yet recognized in reported earnings.

Together, these six streams map cleanly to Fairfax's three business engines.

Accounting Income Streams (1 – 5)

The first five income streams are reflected in reported earnings.

Engine 1: Insurance

1. Underwriting profit

Engine 2: Investments

2. Interest and dividend income
3. Share of profit of associates

Engine 3: Non-Insurance Operating Companies

4. Non-insurance consolidated companies

Crosses All Three Engines

5. Investment gains (arising from insurance, investments and non-insurance operating companies)

As Warren Buffett has long emphasized, accounting earnings are a useful starting point—but on their own, they are incomplete.

To understand what Fairfax is really earning, we need to go one step further.

Beyond Accounting: The Economic Adjustment (Hidden Value)

Fairfax discloses a key measure of value creation that does not flow through reported earnings:

6. Annual change in excess of fair value over carrying value (FV – CV) for associate and consolidated companies

This represents value that has already been created but not yet recognized in accounting results. Importantly, it is not an abstract estimate – it is data is supplied directly by Fairfax, making it transparent and easy to track.

This measure does not capture all of the hidden value Fairfax creates each year. But it is a meaningful and conservative starting point. Critically, this hidden value will become a material source of future reported earnings as it is realized through investment gains.

Mapping Income Streams to Business Engines

In the chart below, we matching Fairfax's three business engines to its six income streams:

Business engines:

1. Insurance
2. Investments
3. Non-insurance operating companies

Business Engine	Fairfax Income Streams January 31, 2026	2026E	Split
1	Underwriting profit - ins & reins.	$1,700	22%
2	Interest & dividend income	$2,650	34%
2	Share of profit of associates	$1,100	14%
3	Non-insurance consolidated comp	$450	6%
2+3	Net gains (losses) on investments	$1,500	19%
2+3	Change in Excess of FV over CV	$500	6%
	Total ($m)	**$7,900**	
	Per share	$348	
	YE Diluted Shares Outst. (Dec 31) m	22.7	

Fairfax vs. Traditional P/C Insurers

Viewing Fairfax through income streams makes one thing immediately clear: this is not a conventional P/C insurance company.

Traditional P/C Insurers

Most P/C insurers rely on just two income streams:

1. Underwriting profit (~45%)
2. Interest income (~55%)

That is essentially the entire economic model. It is optimized to minimize volatility.

Fairfax Financial

Fairfax's economic results are driven by six income streams:

1. Underwriting profit (~22%)
2. Interest and dividend income (~34%)
3. Share of profit of associates (~14%)
4. Non-insurance consolidated companies (~6%)
5. Investment gains (~19%)
6. Hidden value (~6%)

This diversification of earnings sources fundamentally changes how the business behaves—and how it should be analyzed compared to peers.

Fairfax's economic model is optimized to grow per-share value over the long term. Volatility is something to be exploited (not avoided).

Where Many Analysts (and Investors) Go Wrong

Most analysts continue to view Fairfax through the lens of a traditional P/C insurer. As a result, they focus primarily on two income streams: underwriting and interest income.

That approach fails for two reasons:

- It ignores four income streams, composing roughly 44% of Fairfax's earnings power
- It misses the most important driver of long-term results: capital allocation

For Fairfax, the insurance cycle is not the primary determinant of long-term performance. Capital allocation is.

In soft insurance markets, capital does not remain trapped in the insurance silo. It shifts—toward equities, private businesses, credit, or other opportunities—allowing Fairfax to continue compounding capital at attractive rates.

This business model closely resembles Berkshire Hathaway's structure in the 1980s and 1990s. Did soft insurance markets impair Berkshire's ability to compound capital during that period? Clearly not.

There is an important lesson here for investors and analysts evaluating Fairfax today.

Because Fairfax does not fit the conventional model, many commonly drawn conclusions about the company should be treated with skepticism. This persistent misunderstanding contributes to share-price volatility—and that volatility creates opportunity, both for long-term investors and for Fairfax itself through disciplined share repurchases.

Fairfax Financial: The Ugly Duckling of the Insurance Industry

May 8, 2026

Introduction

Hans Christian Andersen's *The Ugly Duckling* is not really a story about transformation. The swan was never ugly — it was simply misunderstood.

Placed among ducks, the swan looked awkward and out of place. The other animals judged it using the wrong framework. Because it did not behave like a duck, they assumed it was inferior.

For decades, many investors have viewed Fairfax Financial the same way.

The market has largely analyzed Fairfax as a traditional property & casualty insurer — focusing heavily on underwriting results, combined ratios, and conventional insurance valuation metrics. But Fairfax has never been a conventional P/C insurer.

At its core, Fairfax is something different: a long-term capital compounder built on insurance float, decentralized operations, equity investing, and disciplined capital allocation.

Because the market has often viewed Fairfax through the wrong lens, the company has frequently been misunderstood, underappreciated, and misvalued.

And yet, as Fairfax continues to execute and deliver above-average returns, investors are increasingly being forced to reconsider what the company actually is.

The "ugly duckling" may finally be recognized for what it truly is: a swan.

The Market's Core Mistake

The market's misunderstanding begins with a flawed assumption — that Fairfax is primarily an insurance company.

Insurance is the foundation of the business. Float provides the fuel. But Fairfax's long-term economics are driven by something much broader.

Fairfax is better understood as a long-term capital compounder built on three interconnected components:

- A decentralized P/C insurance operation
- A large and flexible investment portfolio
- Disciplined capital allocation

These components reinforce one another. Insurance operations generate float. Float provides investable capital. Investments and capital allocation determine how effectively that capital compounds over time.

Traditional insurers primarily monetize underwriting. Fairfax monetizes capital allocation.

That is a fundamentally different business model.

Today, Fairfax manages an investment portfolio of roughly $76 billion, including approximately $50 billion in fixed income and $26 billion in equities and equity-related investments.

This is where leverage becomes critically important.

Insurance float allows Fairfax to control an investment portfolio far larger than shareholders' equity alone would support. One of the best ways to understand this dynamic is to compare total investments to shareholders' equity.

For a well-run insurer, float functions as low-cost leverage. When combined with sound underwriting, equity investing, and disciplined capital allocation, the compounding effect can become extremely powerful.

Importantly, Fairfax allocates meaningful capital to equities and equity-like investments — asset classes that historically have generated higher long-term returns than fixed income securities. Combined with insurance leverage, this creates the potential for above-average long-term returns.

Capital Allocation Is the Key Variable

The critical question is not simply how much float Fairfax has. The real question is: how effectively can management allocate that capital over long periods of time?

That is the straw that stirs the total return drink.

This is also where Fairfax increasingly distinguishes itself from traditional P/C insurers.

Since roughly 2018, Fairfax's capital allocation has arguably been best in class among its peer group. Management has more than doubled the size of its insurance business, improved underwriting profitability, benefited from rising interest rates, monetized and optimized the equity portfolio, repurchased undervalued shares, and built significant recurring investment income — all while maintaining substantial flexibility.

The company's earnings power today is dramatically stronger than it was five years ago.

Importantly, this transformation was not accidental. It was the direct result of capital allocation decisions.

Past performance is never perfect. But in capital allocation businesses, past performance matters enormously because it provides evidence of management skill, discipline, and decision-making ability across different environments.

In many ways, Fairfax today resembles a younger Berkshire Hathaway.

During the 1980s and 1990s, Berkshire compounded capital at exceptional rates despite prolonged soft insurance markets. Insurance provided the float — low-cost leverage that Buffett could allocate opportunistically across equities, acquisitions, and wholly owned businesses.

The key insight is that Berkshire's long-term returns were never driven solely by underwriting conditions. They were driven by capital allocation.

Fairfax increasingly appears to operate from the same playbook.

An important distinction needs to be made. Buffett is the GOAT. Fairfax is not Berkshire Hathaway, and it would be unrealistic to expect Fairfax to replicate Buffett's stock-picking record from the 1980s and 1990s.

However, Fairfax has proven to be a very capable capital allocator and equity investor. Importantly, Fairfax today also has materially more leverage to float than Berkshire had during that earlier period.

The lesson is straightforward: a soft insurance market does not automatically prevent exceptional shareholder returns. It hurts traditional P/C insurers because underwriting margins compress. But for a company with a powerful investment engine and strong capital allocation, insurance still provides the leverage while investments drive the compounding.

The Swan Emerges

The most important development at Fairfax over the past five years has been the transformation in earnings power.

Historically, Fairfax was often viewed as a company that under-earned relative to its asset base and intrinsic potential. That has now changed materially.

Stronger underwriting results, higher investment income and disciplined capital allocation have combined to materially increase normalized earnings power.

With roughly $50 billion invested in fixed income securities and a relatively short-duration bond portfolio, Fairfax has also benefited significantly from reinvesting at higher interest rates.

At the same time, Fairfax's equity and non-insurance investments continue to provide additional upside and embedded value that is often not fully reflected in reported earnings.

In *The Ugly Duckling*, the swan does not suddenly become beautiful. Others simply begin to recognize what it was all along.

Fairfax may now be approaching a similar moment.

The company increasingly combines:

- A high-quality insurance platform
- Massive investable float
- Rising recurring investment income
- Strong equity exposure
- Disciplined capital allocation
- Opportunistic share repurchases
- Multiple long-term compounding engines

These are not the characteristics of a traditional insurer.

They are the characteristics of a long-term capital compounding machine.

That is the swan.

As Fairfax continues to execute, compound intrinsic value, and demonstrate its transformed earnings power, investors may eventually stop viewing the company as an awkward insurance stock and begin recognizing it for what it really is:

A decentralized, long-duration capital compounding machine built on insurance float and disciplined capital allocation.

Not an ugly duckling.

A swan.

How to Think About Fairfax and Its Transformation in Recent Years - The Ugly Duckling

https://americanliterature.com/author/hans-christian-andersen/short-story/the-ugly-duckling

The Ugly Duckling by Hans Christian Andersen is a classic fairy tale about rejection, identity, resilience, and transformation. First published in 1843, the story follows a young bird born in a farmyard who looks different from the other ducklings around him. Larger, awkward, and unattractive in appearance, he is mocked and bullied by the other animals almost immediately after birth. Even his own family struggles to accept him. Everywhere he goes, he is treated as an outsider.

Unable to endure the constant ridicule, the ugly duckling leaves the farmyard and wanders alone through the countryside searching for acceptance and belonging. Along the way he encounters harsh conditions, loneliness, hunger, danger, and repeated rejection. The seasons change as he survives a difficult autumn and a brutal winter. Despite his suffering, he continues moving forward.

During his journey, the duckling occasionally sees beautiful swans flying overhead. He admires them deeply but believes he could never belong among such graceful creatures. They represent everything he is not — elegant, admired, and confident.

When spring finally arrives, the duckling approaches the swans, expecting to be rejected once again. Instead, as he looks into the water, he discovers that he himself has transformed into a magnificent swan. He had never been an ugly duckling at all; he was simply a swan born into the wrong environment. The other swans welcome him warmly, and for the first time in his life he experiences acceptance and happiness.

The story's central message is that people who appear different, misunderstood, or undervalued may possess hidden beauty and potential that only become visible with time and maturity. It is also a story about perseverance, self-discovery, and ultimately finding one's true identity and place in the world.

The story of the Ugly Duckling explains Fairfax's journey (and that of its investors) of the past 40 years. Importantly, for Fairfax (and its investors), spring has arrived.

The Incredible Power of Berkshire Hathaway's Business Model

Berkshire Hathaway's stock increased from ~$2,800 in 1987 to over $48,000 in 1997. Insurance markets were soft for many of these years.

Planting Acorns: A Hidden Driver of Fairfax's Insurance Growth

An Underappreciated Strategy Behind Fairfax's Long-Term Value Creation

March 7, 2026

Introduction

Great compounders often share a common trait: they plant many small seeds that quietly grow into very large businesses over time.

Most seeds never become significant. A few fail. But occasionally one grows into an oak tree — and those few successes generate extraordinary value.

Fairfax Financial has quietly applied this strategy for decades within its insurance operations.

Fairfax grows its insurance business in three primary ways:

- Organic growth
- Acquisitions
- Planting small, early-stage insurance businesses with exceptional operators

The first two are well understood.

The third receives far less attention from analysts and investors. Yet historically it has produced some of Fairfax's largest sources of value creation.

Fairfax regularly backs talented entrepreneurs building new insurance platforms. These initiatives typically begin as small investments — what Fairfax leaders sometimes refer to as "acorns."

Over time, some of these acorns grow into very large businesses.

And occasionally, when price and circumstances are right, Fairfax monetizes an oak tree and recycles the capital into the next generation of opportunities.

This combination — incubation plus opportunistic monetization — is one of the least appreciated features of Fairfax's business model.

A short paragraph from Fairfax's 2025 Annual Report illustrates the strategy still at work today:

> "Now in its second year as a public company, Digit Insurance continues to excel under the leadership of Kamesh Goyal. Digit Insurance finished 2025 with $1.3 billion of premium, 5,000 employees and had $113 million in earnings. With the success of Digit Insurance, we have partnered with Kamesh again in India on Digit Life Insurance and a reinsurance company called Valueattics Re. We have invested $80 million for a 34% interest in Digit Life and $16 million for a 65% interest in Valueattics. It is still early days, but Digit Life wrote $185 million of premium in only its second year and Valueattics wrote $20 million of premium in just its first six months." *Fairfax Financial, 2025AR*

At first glance this appears to be a routine update on an investment.

It is not.

It highlights one of Fairfax's most powerful — and least appreciated — competitive advantages.

From Acorns to Oak Trees

Fairfax's history includes numerous examples where small initiatives eventually became very large businesses.

Digit Insurance is a recent example.

Fairfax invested in Digit in 2017 (cost $101 million), backing entrepreneur Kamesh Goyal to build a modern, technology-driven insurer in India.

Less than a decade later, that investment was worth $2.039 billion at December 31, 2025.

Fairfax's Investment in Digit

- Cost (total investment less dividends received): $101M
- Fair value (Dec 31, 2025): $2.039B
- CAGR: 41.9%

Operationally, Digit continues to scale rapidly:

- Premium: $1.3B
- Employees: ~5,000
- Earnings: $113M (2025)

Digit is now a major insurer in India and continues to grow under Goyal's leadership.

Fairfax planted a small acorn in 2017. Today that acorn has grown into a very large oak tree.

Digit is not unique. Earlier generations of acorns produced similar outcomes.

Acorn	Outcome
ICICI Lombard	Sold from 2017-2019 for ~$1.6 billion
First Capital	Sold in 2017 for $1.7 billion
C&F Pet Insurance	Sold in 2022 for $1.4 billion
Digit Insurance	$2.039 billion fair value
Ki	Emerging digital Lloyd's platform

These successes are not frequent.

But when they occur, the impact on Fairfax can be enormous.

Planting the Next Seeds

Importantly, Fairfax does not simply harvest success and move on.

Instead, it reinvests alongside proven operators to build the next generation of insurance businesses.

Following Digit's success, Fairfax partnered again with Kamesh Goyal to launch two new ventures.

Digit Life Insurance

- Fairfax investment: $80M
- Ownership: 34%
- Premium written (year 2): $185M

Valueattics Re

- Fairfax investment: $16M
- Ownership: 65%
- Premium written (first 6 months): $20M

Both businesses remain in their early stages, but early growth has been encouraging.

Fairfax continues to plant the next generation of acorns.

The Fairfax Acorn Framework

Fairfax's approach to building insurance businesses tends to follow a consistent pattern.

1. Back Exceptional Operators

Fairfax partners with talented entrepreneurs who want to build an insurance business but require capital and long-term support.

Examples include:

- Kamesh Goyal — Digit
- Mark Allen — Ki
- Andy Barnard — Odyssey
- Marc Adee — Crum & Forster
- Mr. Athappan — First Capital

2. Provide Permanent Capital

Unlike private equity firms, Fairfax does not operate under short investment time horizons.
This allows operators to build businesses patiently through insurance cycles.

3. Maintain Decentralized Control

Entrepreneurs retain operating autonomy, which attracts strong leaders who prefer independence over bureaucracy.

4. Allow Time for Compounding

Insurance businesses often take years to reach scale. Fairfax's long-term orientation allows promising initiatives to mature.

5. Monetize Opportunistically and Recycle Capital

Fairfax is not dogmatic. When an acorn matures into a business that is worth far more to a strategic buyer — or when the facts change — Fairfax will sometimes sell, realize the gain, and redeploy the proceeds into new high-return opportunities.

This final step is critical. It turns the acorn strategy into a repeatable capital-allocation engine.

Fairfax as a Venture Capitalist

Viewed through this lens, Fairfax operates partly like a venture capital firm embedded inside a global insurance company.

A venture capitalist provides capital to promising early-stage businesses in exchange for equity ownership. Most investments produce modest returns. Some fail. But occasionally one succeeds spectacularly.

Those few successes generate a disproportionate share of total returns.

Fairfax applies this same logic within the insurance industry.

Instead of funding technology startups, Fairfax backs:

- insurance entrepreneurs
- niche underwriting platforms
- new insurance markets
- innovative distribution models

The company provides:

- capital
- credibility
- infrastructure
- patience
- time

And when the moment is right, Fairfax may also monetize the investment and recycle the capital into the next opportunity.

That is not traditional insurance-company behavior.

It is much closer to venture capital.

Fairfax as an Insurance Incubator

Over time, Fairfax has quietly become an incubator of insurance businesses.

Across the organization, talented operators are given:

- autonomy
- capital
- long-time horizons

This decentralized structure attracts entrepreneurs.

Marc Adee, CEO of Crum & Forster, described this strategy in his 2024 book *Once and Future C&F* as "planting acorns that grow into mighty oaks."

Within C&F alone, several specialty divisions began as small initiatives launched by entrepreneurial leaders and eventually grew into large underwriting businesses writing hundreds of millions — and in some cases billions — of premium.

Occasionally an acorn becomes valuable enough to monetize.

For example, C&F's pet insurance business was sold in 2022 for $1.4 billion.

Acorns Can Be People Too

Sometimes the acorn is not a business.

It is a person.

Prem Watsa highlighted this idea in Fairfax's 2008 Annual Report when he described hiring Chandran Ratnaswami in 1995:

"This may be an acorn for a future oak tree."

Over the following decades Ratnaswami helped build Fairfax's entire Indian platform, including:

- ICICI Lombard

- Fairfax India
- Thomas Cook India
- Fairbridge Capital

What began as a single hire eventually produced an entire ecosystem of businesses.

Another oak tree.

This point matters. Fairfax is not simply good at buying assets.
It is good at identifying people, trusting them, and giving them the runway to build.

Monetizing Oak Trees

An important part of the Fairfax model is not just planting acorns. It is knowing when to harvest an oak tree. The market often misses this second step.

Fairfax is willing to hold businesses for long periods, but it will also sell when the price becomes extraordinary or strategic circumstances change.

Three recent examples illustrate the pattern clearly.

ICICI Lombard: Pivoting When the Facts Changed

ICICI Lombard is one of the best examples of what Fairfax does well as a company. Fairfax entered India early, partnering with ICICI Bank in 2001 to build a property and casualty insurer from scratch. Over time, ICICI Lombard became the largest private P/C insurer in India. Fairfax's long-term patience, choice of partner, and decentralized approach all worked exactly as intended.

But the most impressive part came later. When ICICI Lombard moved toward a public listing, Fairfax faced a choice: accept a much smaller ownership stake or pivot. Fairfax chose to pivot. From 2017 to 2019, it sold its entire position in ICICI Lombard for proceeds of roughly $1.6 billion, crystallizing approximately $1.3 billion of pre-tax value, while simultaneously seeding Digit with Kamesh Goyal. This was not a retreat from India. It was a strategic repositioning to preserve and expand Fairfax's long-term exposure to the Indian P/C market through a new platform where it had greater influence and upside.

First Capital: A Small Seed Becomes a Major Realization

First Capital is another excellent example. Fairfax invested just $35 million in 2002 to back Mr. Athappan in building a P/C insurer in Singapore. Fifteen years later, First Capital had become the largest P/C insurer based in Singapore. In 2017, Fairfax sold the business to Mitsui Sumitomo for $1.7 billion and booked an after-tax gain of $1.0 billion — a stunning outcome from a single modest investment.

The lesson is not simply that Fairfax found another winner. It is that Fairfax recognized when an asset was worth more to a strategic buyer than it was worth to Fairfax on a stand-alone basis. That

willingness to monetize at an exceptional price — and then redeploy the proceeds elsewhere — is a major part of why the acorn strategy creates so much value over time.

Pet Insurance: Opportunistic Monetization at the Right Time

The sale of Fairfax's pet insurance business in 2022 offers a third variation on the same theme. What began with the acquisition of Hartville in 2013 and Pethealth in 2014 eventually became a meaningful pet insurance platform within Crum & Forster. Then Fairfax recognized that industry consolidation and unusually aggressive valuations had created an opportunity. JAB acquired the business for $1.4 billion, generating a pre-tax gain of $1.2 billion and an after-tax gain of approximately $934 million.

This transaction is especially important because it shows how Fairfax behaves when market conditions become unusually favorable. Management did not cling to the asset out of sentimentality. They sold when the price was extraordinary and redeployed the capital. That is classic Fairfax: open-minded, opportunistic, and rational.

The Analytical Problem

There is an important implication for investors.

This capability cannot easily be incorporated into financial models.

Analysts typically focus on near-term earnings drivers such as:

- underwriting profit
- combined ratios
- investment income
- interest rates
- catastrophe losses

But the acorn strategy behaves very differently.

Its outcomes tend to be:

Characteristic	Description
Frequency	Infrequent
Predictability	Low
Size	Often very large
Timing	Highly uncertain
Impact	Material when realized

Because analysts cannot forecast these outcomes with precision, they generally exclude them from forecasts entirely.

Value only becomes visible after an IPO, sale, or valuation re-marking.

This creates a structural bias.

Future value creation from these initiatives is systematically underestimated.

Why This Matters for Investors

Fairfax has compounded shareholder value at approximately 19% annually for nearly four decades.

Two engines are usually credited for this performance:

- P/C insurance
- Investment management

Both are correct.

But they are incomplete.

A third engine has quietly contributed to Fairfax's long-term results:

- building, scaling, and occasionally monetizing new insurance businesses.

The acorn strategy has several implications for investors.

1. Earnings Will Occasionally Spike

When an acorn is monetized, the gain can be very large relative to Fairfax's annual earnings.

2. Reported Earnings Understate Long-Term Value Creation

Many acorns compound quietly for years before their value becomes visible in financial statements.

3. Traditional Models Miss This Value

Because outcomes are unpredictable, analysts generally exclude them entirely.

As a result, Fairfax's long-term earnings power may be systematically underestimated.

4. Capital Allocation Is Better Than It Appears

The full value of Fairfax's capital allocation skill is easy to miss if an investor focuses only on quarterly underwriting profit or interest income. Some of management's best decisions only become visible years later, when an acorn becomes an oak tree — or when an oak tree is sold at an exceptional price.

The Bigger Picture

This helps explain why Fairfax is often misunderstood.

Many investors still look at Fairfax primarily through a conventional insurance lens. They focus on the combined ratio, reserve development, interest income, or near-term earnings estimates.

Those things matter.

But they do not capture the full economics of the business.

Fairfax is not just an insurer.

It is also an allocator of long-duration capital operating inside insurance markets around the world.

That distinction matters.

It helps explain why Fairfax has been able to create value in ways that are difficult to capture in a standard earnings model. It also helps explain why the company can look ordinary on the surface while something much more valuable is developing underneath.

Much of Fairfax's future value creation is likely already being built today in businesses that investors do not yet fully appreciate.

Some of those businesses were planted years ago.

Others are only just beginning.

Most will develop quietly.

A few will become very important.

Summary

Fairfax's acorn strategy highlights an important truth about the company's business model.

Much of the value creation occurs quietly and over long periods of time.

Fairfax plants small insurance businesses with talented operators, gives them capital and autonomy, and allows time and compounding to do the heavy lifting.

Occasionally, one of those acorns becomes a very large oak tree.

And sometimes Fairfax monetizes that oak tree and recycles the capital into the next set of opportunities.

These initiatives share several characteristics:

- They are few in number
- They are difficult to predict
- They are monetized infrequently
- When successful, they are very large

That is why they are easy to miss.

But they should not be ignored.

This capability has already created billions of dollars of shareholder value at Fairfax through investments such as ICICI Lombard, First Capital, Pet Insurance, and Digit.

More importantly, it is still at work today.

Across Fairfax's global insurance operations, numerous acorns have already been planted.

Some were planted many years ago.

Others are only beginning to grow.

Most will develop steadily.

But every few years, one becomes an oak tree.

And when it does, the impact on Fairfax — and its shareholders — can be transformative.

Appendix: An Example of What is Happening within Fairfax's Insurance Businesses

In 2024, the Crum and Forster published a book, called The Once and Future C&F, to chronicle the company's 200-year journey.

Click the link to get a free PDF copy of the book:

- https://www.cfins.com/the-once-and-future-cf-landing/

From its humble beginnings as a New York fire insurance company to its status as a market leader in property & casualty, accident & health, and specialty insurance solutions, this book delves into the pivotal moments and the leaders that have shaped the company's legacy.

What CEO Marc Adee had to say was very insightful to our "acorn" theory.

From page 72 - Once and Future C&F (Marc Adee)

Just like the founding fathers of Crum & Forster, I have a Dream Team. I have worked with most of my senior management team for a long time. We may only be part of the way to the 50 years that Lester Parsons' Dream Team stayed together — since most of us squandered our teen years in school, instead of heading right into insurance — but I feel that some of the years in the trenches should count twice. While I would love to profile everyone here, it would probably get a little corny. I will embarrass a few people to complete the story of the acorns that grew into mighty oaks.

Gary McGeddy started the A&H Division in his basement. In 2024, the A&H team will profitably write over $2 billion of gross premium. He and I started our careers with Fairfax the same month in 2000. Gary and his loyal team of associates and partners were along for the whole ride: TIG's downgrade, Fairmont Specialty's formation, the merger into C&F. All the while, Gary and his A&H team kept scrapping away — reinventing and upgrading, delivering results and developing their franchise and their people. If that were not enough, in early 2022 Gary noticed that the valuations for pet insurance companies were skyrocketing. While Fairfax is not usually inclined to sell any of their insurance businesses — especially one that was performing as well as Pet — they agreed to see what it might fetch in the marketplace. Thus was born C&F's first unicorn: we sold the pet insurance business to JAB for $1.4 billion. Gary was good for two acorns (or maybe one acorn and one unicorn). I am excited to see what he will come up with next.

Tom Bredahl made the leap from a relatively safe reinsurance underwriting job at Odyssey Re right into the challenging environment that was First Mercury's restructuring. Several months in, I moved on to run C&F, leaving Tom to complete the actual hard work of building a business. In 2024, the Surplus & Specialty Division will profitably underwrite $1.4 billion of gross premium. Tom and his team were ready with perfect timing to hit what has been an unprecedented shift in business to the non-admitted market — the Golden Age of Surplus Lines. At the same time, S&S developed an innovative niche to address the insurance needs of the dynamic gig economy, which supercharged their business.

You don't get more New York than Marc Wolin and Seneca. Like the original North River Insurance Company, Seneca stuck to its knitting for a long time. When Marc took over as CEO in 2013 (he started at the company in 1989), Seneca started pushing for ways to improve at the margins. By the time Seneca's main market (New York City property) opened up, Marc and the team were ready. In 2024, Seneca will write $700 million of very profitable gross premium. Marc reinvigorated and reinvented a company that was relatively set in its ways — and is now taking Seneca to new heights.

C&F has always straddled the line between the specialty and standard lines worlds. Our Commercial Lines and Executive Risk Division can trace its lineage far back into C&F history, so it is not one of the more recently planted acorns. However, John Binder and his team have breathed new life into some of the long-time C&F product lines — and added a few exciting new ones along the way. They will write $800 million of profitable gross premium in 2024.

Culture and performance definitely form a virtuous circle. As I write this, we have an impressively diverse collection of specialty businesses. We have a 10-year track record of growth and underwriting profit - we have more than tripled in size and have a 10-year combined ratio of 98.

Complexity and How to Get an Edge with Fairfax

February 14, 2026

Introduction: Why an Edge Matters

> "An investor needs an edge to outperform the market over time." — *Seth Klarman*

> "Active management requires a reason to believe you have an advantage." — *David Swensen*

Successful investing begins with a simple premise:

You need an edge.

Investment edges typically fall into three broad categories:

- Informational edge – access to better or more complete information.
- Analytical edge – the ability to interpret available information more effectively.
- Behavioral edge – the discipline to act rationally when others do not.

Having one is good. Having two is better. Having all three is powerful.

Fairfax offers the rare possibility of all three.

The "Perfect" Set-Up

It is very difficult to develop an edge with a large, widely company. Information is abundant, models are standardized, and expectations are calibrated.

The ideal setup often looks different:

- Smaller company – not widely followed
- Management is not promotional
- Business model is complex
- Methods are unorthodox
- A colorful history that creates lingering scepticism

At first glance, that does not sound attractive.

But what if that same company:

- Delivered best-in-class performance over the past five years?
- Has strong underlying fundamentals?
- Has a compelling long-term outlook?

That combination can create opportunity.

Is Fairfax Complex?

There is different. And then there is complex. Fairfax is both.

Business Model

Fairfax operates two very different businesses: P/C insurance and investment management.

Most P/C insurers primarily invest in fixed income. Fairfax does far more — equities, private investments, operating companies, and alternatives. This creates additional income streams and provides significant flexibility in capital allocation.

- Traditional P/C insurers: ~2 core income streams
- Fairfax: 5 reported income streams + hidden value as a 6th

The investment management side is where much of the complexity lies. The breadth of activity is wide, and each type of investment has different accounting treatment.

Hidden Value - Accounting Results Understate Economic Results

A sizable portion of value creation is not fully reflected in accounting results.

Hidden value — particularly in associate and consolidated holdings — represents an important source of future earnings. Fairfax provides disclosures that help quantify the amounts involved.

But here is the really interesting part: market participants appear to ignore this value in their analysis and valuation of the company. It is frequently treated as if it does not exist.

Time Horizon and Volatility

Fairfax runs the business with a long-term focus – the goal is per share value creation. That leads the company to invest in equities, which deliver much better long-term returns than bonds.

Many P/C insurance peers, by contrast, are managed with a short-term focus, prioritizing smooth and predictable results.

For Fairfax, volatility is opportunity. Exploiting volatility has been one of its super powers and an important driver of long-term results.

Market participants, however, often view volatility as kryptonite.

Paradoxically, the market penalizes Fairfax for something that is actually one of its strengths.

Unconventional Capital Allocators

Fairfax's approach often feels closer to Henry Singleton or John Templeton than Warren Buffett – unconventional, opportunistic and global.

And it has worked. The company has delivered a share price CAGR of ~19% over 40 years (US$, with dividends reinvested).

Yet despite delivering exceptional long term performance, skepticism remains.

Investors frequently react negatively to Fairfax's equity portfolio without following the underlying companies or considering performance. For example, Fairfax's 10 largest public equity holdings were up 47% in 2025.

Trust

Fairfax messed up from 2010 to 2020.

While the turnaround over the past five years has been remarkable, rebuilding trust takes time. Institutional memory — especially in Canada — is long. Confidence is improving, but not fully restored.

Accounting

Fairfax reports under IFRS. The introduction of IFRS 17 in 2023 significantly changed how Canadian P/C insurers present results.

For many investors, this makes the numbers harder to interpret and compare to US GAAP-based peers.

Change

Most companies change slowly.

Fairfax has evolved dramatically in the past five years:

- 2020: A classic turnaround play
- 2022: Morphed into a value play
- 2024: Morphed into a quality play

The company continues to evolve. That makes it harder to understand — and harder to value.

Final Thoughts: Conditions for Mispricing

Fairfax is:

- Different (business model, long-term orientation)

- Unconventional (capital allocation)
- Reported under IFRS 17 (adding complexity)
- Marked by a colorful past (2010-2020 missteps)
- Evolving rapidly (income streams and structure)

These characteristics create both analytical complexity and psychological barriers for market participants.

They also create the conditions for mispricing.

The Analyst Challenge: A Square Peg in a Round Hole

Most analysts cover Fairfax as a P/C insurance company.

They apply a standard model designed for traditional insurers. That model works well for most peers. It does not work particularly well for Fairfax.

Why?

Because it struggles to incorporate:

- The investment management business
- Long-term capital allocation decisions
- Structural changes within the company

So why not build a better model?

Fairfax is only one company. Analysts cover many. Building a bespoke framework takes time — and there is little incentive to do so.

As a result, much of the research on Fairfax focuses heavily on underwriting and interest income, while overlooking the equity portfolio, capital allocation and total expected investment performance.

That said, coverage has improved over the past five years. In 2020, very little information was available. Today, some of the research is quite good — though quality remains uneven. (Buyer beware!)

This gap creates opportunity for investors willing to do the work.

How to Get an Edge with Fairfax

Over time, five practical approaches can help investors develop an edge.

1. Corner of Berkshire and Fairfax (COBF)

- https://thecobf.com

The Corner of Berkshire and Fairfax forum, founded in 2002 by Sanjeev Parsad, has been an exceptional resource for discussion, analysis, and debate for more than two decades.

It remains the single best external source of information on Fairfax.

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2. Understand Hidden Value

A large portion of Fairfax's value creation is not captured in reported accounting results. As a result, it does not show up in most analyst models.

Fairfax does provide disclosure that helps quantify some of this value — but it is often overlooked and ignored.

Hidden value builds primarily through associate and consolidated equity holdings.

Two Examples:

Example 1: Excess of fair value over carrying value
(Non-insurance associate and consolidated holdings; disclosed by Fairfax)

- 2025E: $2.6B, or $114 per diluted share (pre-tax)
- Increase of $1B, $44 per diluted share in 2025

Example 2: Fairfax India

- Both the fair value and carrying value appear materially understated
- Book value is much higher
- Intrinsic value is likely significantly higher than reported book value

Net result: the asset appears significantly undervalued on Fairfax's balance sheet and even its own estimate of fair value.

There are many more examples – Poseidon, Ki, and others.

This is value that has already been created. It is large. And it is growing.

Over time, it should become an important source of future earnings – effectively a sixth income stream. The timing is uncertain. But the direction is clear.

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3. Understand the Equity Portfolio – Build an Equity Tracker

Historically, one of most effective ways to understand (and invest in) Fairfax has been to follow the investment portfolio.

At times, there has been a lag between good news in the portfolio and its reflection in the share price. The most famous example was the CDS/equity hedge investment from 2006 to 2009.

Like the movie Groundhog Day, this pattern continues to repeat.

Roughly one-third of Fairfax's total investment portfolio is in equities. Performance here materially affects both short- and long-term results.

What to do? Build a model.

An equity tracker spreadsheet can:

- Capture each equity holding: share count, price and total value
- Group holdings by accounting treatment: mark-to-market, associate and consolidated
- Track performance in real time during the quarter

Informational sources: Fairfax disclosures and COBF.

Example – Q4 2020

Fairfax owned many cyclical companies. When COVID hit, these holdings fell sharply and remained depressed through much of 2020.

Then news of a vaccine broke in November. Cyclicals surged. Fairfax's equity portfolio rose sharply (by roughly $1 billion).

But the stock remained depressed.

The equity tracker revealed that the company was actually much cheaper than it appeared — making it easier to take a concentrated position.

The tool provides a real-time, granular understanding of what is happening with one-third of the investment portfolio — insights few others have.

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4. Understand Earnings and Forecasting – Build an Earnings Model

Over the past 5 years, Fairfax has evolved significantly. This has materially impacted its five income streams. The shift to IFRS accounting added more complexity.

What to do? Build a model to understand what is happening "under the hood."

An earnings model can:

- Resemble Fairfax's pre-IFRS income statement
- Track the company's five core income streams
- Develop individual models for each income stream
- Enables bottom-up forecasting for the next two years

Beginning in 2021, the story at Fairfax improved broadly — across insurance, investments, and capital allocation.

There is often a lag between improving fundamentals and when they show up in reported results. The model helps bridge that gap.

Key developments:

- Underwriting Profit (2020 to 2025): hard market + improved underwriting
- Interest and dividend income (2023 to 2025): spike from higher rates + higher balances
- Share of profit of associates (2021): spike to $1 billion
- Non-insurance consolidated companies (2025): breakout year

NICC is a good example. Fairfax has been building this group of holdings for years (Recipe, Sleep Country, Meadow Foods, Peak Achievement). Reported earnings were flat for a long time.

In 2025, they surged.

This income stream now looks positioned to grow meaningfully — like a coiled spring being released.

The earnings model connects past decisions to future results. It provides a structured, forward-looking view of fundamentals. It's like having a crystal ball – it provides the ability to see Fairfax's future results – insights few others have.

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5. Understand Capital Allocation – Build a "Swings Tracker"

Capital allocation is central to Fairfax's long-term value creation.

To evaluate management, it helps to track what they actually do with capital.

A capital allocation tracker can record each meaningful decision:

- Date
- Activity: buy (new/add) or sell (all/partial)
- Description
- Amount: use or source of capital
- Separated by business: insurance and non-insurance

The data set goes back to 2010 – 15 years of detail.

It helps answer two key questions:

- How good is Fairfax at capital allocation?
- Is performance driven by skill or luck?

Back in 2021, Fairfax was widely viewed as below average.

Over time, the tracker told a different story.

The conclusion evolved:

Below average → above average → best-in-class.

And the pattern increasingly looks like skill — meaning repeatable.

Writing as an Edge: The Fairfax Book/PDF

Writing is another powerful way to develop and sharpen an edge.

Informational edge:

Writing forces ideas, data, and assumptions into a clear structure. Information becomes understanding.

Analytical edge:

Putting thoughts on paper sharpens analysis, exposes gaps in reasoning, and helps distinguish signal from noise. It also creates a permanent record of what you believed and why.

Behavioral edge:

Writing helps reduce biases and supports disciplined decision-making.

Continuous improvement:

Successful investing is a journey, not a sprint. Many articles have been edited two or more times. Each revision (usually) improves the thinking.

In August 2023, a collection of posts was published: 14 chapters, 192 pages.

Today, the working document has grown to 21 chapters and more than 850 pages, with updates roughly every two months.

The Fairfax book/PDF and companion Excel workbook (with all models) are available for free at COBF:

- https://thecobf.com/forum/topic/20253-fairfax-vol-2-100-of-the-best-posts-all-in-one-document/#findComment-526661

Summary

Developing an edge with Fairfax has been a five-year journey built on:

- Curiosity
- Open-mindedness
- Continuous improvement

The edge comes from combining multiple sources of insight:

External resource:

- Corner of Berkshire and Fairfax (COBF)

Company disclosures:

- Excess of fair value over carrying value
- Associate and consolidated holdings

Custom models:

- Equity tracker
- Earnings model
- Swings tracker (capital allocation)

Individually, each provides useful information.

The real magic is how all the pieces work with each other. Together, they form a more complete picture — supporting better analysis, better decisions, and, over time, better results.

They also help avoid psychological landmines — of which there are many with Fairfax.

These tools improve forward-looking understanding, clarify what drives long-term value, and increase the probability of better investment outcomes.

In short, they provide a meaningful edge.

And what has been the result over the past 5 years?

Magic for shareholders. Fairfax's stock has had a spectacular run. Surprisingly, the stock still appears cheap. It may just be getting started.

A Review of Fairfax's Annual Results: 2025

February 21, 2026

> "Skate to where the puck is going, not where it has been." - *Wayne Gretzky*

Introduction: The Market Is Turning

The P/C insurance hard market is drawing to a close.

For traditional insurers, that means:

- Softer pricing
- Margin compression
- Lower earnings power

For Fairfax, it means something different.

Fairfax is not a traditional insurer. Analyzing it through that lens leads to flawed conclusions.

The key question is: What happens next?

Time Horizon Determines Insight

Fairfax is managed with a long-term orientation. That is visible in:

- Underwriting discipline
- Capital allocation decisions
- Share repurchases
- Balance sheet management

If management operates on a multi-year horizon, investors must evaluate results the same way.

Quarterly results matter. They contain valuable information. But they are fragments of a much larger mosaic that unfolds over years. Obsessing over quarterly results risks missing the forest for the trees — and that mistake is particularly costly with Fairfax.

The Multi-Engine Model

Most P/C insurers rely on two income streams:

1. Underwriting income
2. Fixed-income investment income

When underwriting margins compress, earnings compress.

Fairfax has built something broader. It has six income streams - five that flow into reported earnings and a sixth that flows into economic earnings:

Reported Earnings Streams:

1. Underwriting income
2. Interest and dividend income
3. Share of profit of associates
4. Operating income from non-insurance subsidiaries
5. Investment gains

Economic Earnings (Not Reflected in Reported Earnings)

6. Excess of fair value over carrying value (hidden value)

Each fluctuates quarter to quarter — and sometimes year to year.

There is lots of noise in quarterly results. There is lots of signal in one and two-year results.

Of course, Wall Street focusses on the noise (short term results). The key is to not let Wall Street trip you up.

What matters is:
- The multi-year trajectory of each stream
- How they interact collectively
- How capital allocation decisions reshape their contribution

This flexibility is the structural difference.

2025: Record Year

2025 was the best year in Fairfax's history.
- Accounting earnings: $214 per diluted share
- Economic earnings (conservative): $271 per diluted share

Execution has been strong across insurance, investments, and capital allocation — for five consecutive years.

Fairfax: High-Level Results		
Metric	**2025**	**2024**
EPS	$214	$161
BVPS	$1,260	$1,058
Dividend	$15	$15
Excess of FV over CV (after tax)	$57	$16
Economic EPS	$271	$177

Segment Review

1. Insurance: Discipline Over Growth

Fairfax delivered record underwriting profit while intentionally moderating growth.

- NPW growth: +3.9% (vs +11.6% in 2024)
- Combined Ratio: 93.0% (vs 92.7%)
- Underwriting profit: $1.82B (vs $1.79B)

Additional details:

- Favourable development: 2.9% ($751.5M) vs 2.6% ($593.6M) in 2024
- Catastrophe losses: 4.8% ($1.24B) vs 4.5% ($1.10B) in 2024
- Float: $39.3B (up 11.2% from $35.4B)
- Runoff adverse development: $298.5M (vs $221.1M in 2024)

Standout performers:

- Northbridge 88.7% CR
- Allied World 89.3% CR

Key point: Fairfax produced a record $1.8B of underwriting profit while maintaining discipline into a softening cycle. Float remains the foundation of the model – and Fairfax continues to be paid well to hold it.

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2. Interest and Dividend Income: Stability

- $2.57B (vs $2.51B in 2024)
- Q4: $645.8M (vs $698.2M in 2024)

Importantly, Q4 2024 included a one-time dividend of $112.3M from Digit. Adjusted for this amount, Q4-2025 saw a solid YOY increase.

- Q3 2025 $655.4M

Interest and dividend income did fall slightly quarter over quarter.

The fixed income portfolio remains conservatively positioned:

- 75% government bonds
- 14% high-quality corporates (short duration)
- 11% first mortgage loans
- Average yield ~5%

Despite lower short-term rates, this income stream grew due to:

- Larger invested balances
- Shift into higher-yielding opportunities (e.g., KW mortgage loans, private investments like Blizzard Vacatia)

Key point: Record income achieved without reaching for yield.

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3. Share of Profit of Associates: Transitional Dip

- Total: $815.1M (vs $956.3 in 2024)
    - Q4: $251.8M

Decline driven by:

- Sales of Sigma ($34M impact) and Stelco (18M)
- Consolidation of Peak Achievement ($57M)
- Losses at Waterous ($64.7M) and Sanmar ($45M)

Major contributors:

- Eurobank: $474.1 (vs $515)
- Poseidon: $286.9M (vs $213M)

Poseidon delivered exceptional results.

A ~$250M quarterly run-rate appears achievable going forward.

Key point: The dip to $815 million in 2025 appears transitional, not structural.

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4. Non-Insurance Consolidated Companies: Scaling Platform

- Operating income: $397.4M (vs $241.4M in 2024)
- Excluding the Boat Rocker write-down ($108.6M), income exceeded $500M

Recent acquisitions (Sleep Country, Peak, Meadow Foods) are contributing meaningfully.

Key point: This segment is becoming a larger and more stable contributor — further diversifying Fairfax beyond insurance.

---

5. Investment Gains: Expanding Contribution

Total: $3.15B (vs $1,067.2B in 2024)

Breakdown:

- Equities: $3.05B
    - Common stock gains: $1.49B
    - FFH-TRS: $840.6M
- Bonds: $385.4M, primarily US treasuries
- Other (currency): ($284.1M)

Fairfax now holds approximately $26B in equities.

Important dynamic:

- Equity portfolio is growing
- Hidden value (FV over CV) is expanding
- Monetization opportunities are increasing

Example:

- Sale of Eurolife to Eurobank (~$350M pre-tax gain expected Q2 2026)

Key point: Investment gains are becoming a more meaningful contributor to overall earnings power.

FFH – Total Return Swaps

Fairfax continues to have exposure to 1.76M Fairfax shares.

Here is what Peter Clarke (President and COO) had to say on the Q4-2025 conference call:

"On the Fairfax TRS, we've always said that that's an investment. We continue to believe it's a very good investment, so it we continue to hold that."

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6. Hidden Value: The Underappreciated Income Stream

Fairfax's equity holdings have had an outstanding year in 2025. A large portion of the increase in value did not show up in the accounting results, with excess of FV over CV for non-insurance associate and consolidated holdings being the best example:

- Total: $3.1B (vs $1.5B in 2024)
- Increase of $1.6B (~$57 after-tax per share)

Eurobank — Fairfax's largest equity holding — delivered an 82% TSR in 2025. Much of that appreciation has not flowed through accounting earnings.

Hidden value will be an increasingly important source of investment gains in the future as they get monetized by Fairfax.

Fairfax: 1-Yr Total Return on Eurobank Investment				Shares		
Dec 31, 2025	Stock	MV of Position		Owned		Exch.
Current Position	Price	Euro	US$ (M)	by FFH		Rate
Dec 31, 2024	€ 2.230	€ 2,645	$2,724	1,186		1.03
Dec 31, 2025	€ 3.425	€ 4,035	$4,761	1,178		1.18
Increase in MV in 2025 for Eurobank			$2,037			
Dividends	May + December		$207			
Total Shareholder Return in 2025			$2,244	82%		
Carrying Value at Sept 30, 2025 (1)			$2,667			
Excess of MV over CV for Eurobank			$2,094	$91	Per dil FFH share	
(1) Equity accounted. Much of increase in MV not captured in accounting results.						

Capital Structure Optimization

- Redeemed $876.5M preferred shares for $689.4M
- $187M gain
- Replaced non-deductible preferred capital with tax-deductible senior notes

Debt-to-total-capital (ex-insurance subs): 26.2% (vs 24.8% in 2024)

With operating earnings > $5B, coverage remains strong.

Rational, value-enhancing capital structure management.

Share Repurchases: Compounding Per Share Metrics

2025:

- 1.0M shares repurchased for $1.6B ($1,616 per share)
- ~3.7% reduction in effective shares outstanding to 20.86M (vs 21.67M in 2024)

2026 Q1:

- 130,573 shares repurchased for $220M ($1,685 per share)
- ~ 0.6% reduction in effective shares outstanding: 20.726M

Over eight years, shares outstanding have been reduced by 25% (from 27.75M to 20.86M). Shares were purchase at very attractive prices, delivering outstanding value to long term shareholders.

Repurchases continue at prices that appear materially below intrinsic value.

Per-share metrics — NPW, float, EPS, BVPS — are compounding much faster than total figures.

This matters.

The Structural Difference

Fairfax has spent 40 years building a broader capital allocation platform. Insurance remains foundational, but it is not the sole driver of compounding.

The pending take-private of Kennedy-Wilson illustrates this evolution. Real estate underwriting expertise is now brought in-house. The platform continues to expand.

As the hard market slows, Fairfax can shift capital from insurance to non-insurance opportunities where it will continue to compound at above average rates of return. Yes, the growth of underwriting income will slow. But other income streams will grow more quickly. Total earnings should continue to grow nicely.

That flexibility is not common among P/C insurers.

A Historical Parallel

Fairfax today resembles a younger Berkshire Hathaway in the 1980s–1990s:

- Large float
- Meaningful investment leverage
- Multiple income streams
- Disciplined capital allocation

Were there soft markets during that period? Yes — severe ones.

Did Berkshire stop compounding? No.

The lesson:

- Underwriting discipline matters more than premium growth
- Capital allocation matters more than insurance cycles

Investors who avoided Berkshire Hathaway due to insurance cycle concerns missed out on being invested in one of the greatest compounding machines in history.

Berkshire Hathaway - Shareholder Returns by Decade			
	BRK-A YE Value	10-Year CAGR	
1965	$12		
1974	$40	1965-1974*	14.3%
1984	$1,275	1974-1984	41.4%
1994	$20,400	1984-1994	32.0%
2004	$87,900	1994-2004	15.7%
2014	$226,000	2004-2014	9.9%
2024	$680,920	2014-2024	11.7%
1965-1974 * = 9-year CAGR			

What Actually Matters Now

As the hard market slows, investors should focus on three questions:

1. Is underwriting disciplined?
2. Is capital being allocated rationally?
3. Are per-share economics improving?

Current evidence suggests a strong "yes."

Bottom Line

2025 was an exceptional year.

But the investment case is not about peak underwriting.

It is about:

- $39B of float
- $75B investment portfolio
- $26B equity exposure
- Expanding private platforms
- Growing hidden value
- Aggressive share repurchases
- Increasing capital flexibility

Fairfax is not a traditional insurer.

It is a capital allocation platform built on insurance float.

The cycle may be turning.

The compounding machine is entering its next phase.

Chapter 4: Valuation

Valuing Fairfax Financial

Is the stock cheap? If so, how cheap?

There is no "right" way to value a company.

Insurance investors like to use price to book value and return on equity as their North Star. Peter Lynch might argue Fairfax should be viewed as a turnaround play. Ben Graham would emphasize intrinsic value and margin of safety. A relative investor might prefer peer comparisons with companies like Markel or Chubb. In a higher-interest rate world, Warren Buffett might suggest anchoring the analysis around insurance float.

All of these methods offer useful insights – and none, on their own, are sufficient.

Valuing a company is difficult. Valuing a non-traditional P/C insurance company like Fairfax – one that materially under-earned for years – is even harder. Historical results are distorted. Conventional models are insufficient.

In this chapter, we approach Fairfax's valuation from multiple angles. Each framework reveals something different. When combined, they allow us to form a clearer, more complete answer to the valuation question.

Performance and Valuation – Comparing Fairfax to P/C Insurance Peers

February 11, 2026

Valuation Methodology: A Relative Return Framework

There are many ways to value a company. Here, we use a relative approach—comparing Fairfax to a select group of high-quality P/C insurers—to answer three core questions:

1. How have these companies performed?
2. How are they being valued today?
3. Does valuation align with performance?

To provide additional context, we also compare results to the broader market as an absolute benchmark.

Peer Group

Fairfax is compared against the following companies (alphabetical order):

- Berkshire Hathaway (BRK) – Historical gold standard; now a diversified conglomerate
- Chubb (CB) – Large, global, traditional insurer
- Intact Financial (IFC.TO) – Largest P/C insurer in Canada; expanding globally
- Markel (MKL) – "Baby Berkshire"; U.S.-focused specialty insurer
- Travelers (TRV) – Large U.S. insurer; DJIA component
- W.R. Berkley (WRB) – High-quality U.S. specialty insurer

Each company has a distinct business model. Accordingly, this analysis is intentionally high level and focused on the metrics most relevant to P/C insurers.

Measuring Performance: A Six-Year View

(Dec 31, 2019 to Dec 31, 2025)

Buffett has often suggested that five years is a reasonable timeframe for evaluating management performance. We extend the window slightly to six years to reduce distortions caused by Covid-era volatility.

Performance Metrics Used

For decades, Buffett relied on growth in book value per share as Berkshire's primary yardstick. In 2018, he pivoted to a simpler measure: change in share price.

We use both approaches:

- Change in BVPS + dividends

- Total shareholder return (TSR): share price appreciation + dividends

Together, these provide a practical framework for evaluating how effectively management compounds shareholder capital over time.

Overview of the Process

Step 1: Review Past Performance

Relative vs. peers

- Change in BVPS + dividends
- Total shareholder return (share price + dividends)

Absolute vs. the market

- Comparison to S&P 500 total return

Step 2: Examine Valuation

- Price-to-book value (P/BV)
- Price-to-earnings (P/E)

Step 3: Connect the Dots

- Does valuation align with performance?
- What can we learn from any disconnect?
- Does this warrant further study?

Past Performance Analysis

1) Change in Book Value Per Share + Dividends

Book value per share (BVPS) growth has long been a core metric for evaluating P/C insurers. It measures how fast shareholder capital is compounding.

- BVPS captures retained value
- Dividends represent value distributed
- Both matter

6-Year Results (2020–2025):

- Fairfax ranks #1 among peers
- BVPS + dividend growth: +173%
- CAGR: 18.2%

The outperformance is material. There is a wide divergence across the group, with Travelers (9.4% CAGR) and Chubb (9.3% CAGR) at the lower end.

Measuring Performance: P/C Insurance Peer Comparison - Change in BVPS + Dividends
For the 6 Year Period From Dec 31, 2019 to Dec 31, 2025

	YE Book Value				Value Creation		6-Year
	2025 (2)	2019	Increase	Dividends	Total $	%	CAGR
Fairfax	$1,255	$486	$769	$70	$839	173%	18.2%
Intact Fin (C$)	$107	$53.97	$53	$25	$79	146%	16.2%
WR Berkley (1)	$25.72	$14.72	$11	$5	$16	110%	13.2%
Berkshire B	$335	$173.78	$161	$0	$161	93%	11.6%
Markel	$1,477	$802.59	$674	$0	$674	84%	10.7%
Travelers	$151	$101.55	$50	$23	$73	72%	9.4%
Chubb	$189	$122.42	$66	$20	$87	71%	9.3%

(1) WRB - Adjusted for 3 for 2 share split in Feb 2022 and a second one in July 2024
(2) Estimate for Berkshire and Fairfax

An Important Adjustment: Economic vs. Accounting Performance

BVPS captures accounting results. What really matters is economic performance.

BVPS is a strong proxy for traditional insurers. But it becomes less complete for companies with large associate and consolidated equity holdings—such as Berkshire, Markel, and Fairfax—where capital is compounding in ways not fully captured in reported book value.

This creates a form of "hidden value."

As a result:

- BVPS + dividends understate the true performance of these companies.
- The gap between accounting value and economic value is growing over time.

Investors need to keep this in mind when interpreting results.

A Simpler Approach

In 2018, Buffett moved away from BVPS as Berkshire's primary performance measure and instead emphasized share price performance (total shareholder return, as Berkshire does not pay a dividend).

The logic was straightforward: as Berkshire evolved, book value became a less reliable proxy for intrinsic value (that "hidden value" thing). Over time, the share price did a better job reflecting economic reality.

Charlie Munger captured the essence of this idea:

"Over the long term, it's hard for a stock to earn a much better return than the business which underlies it earns." *Charlie Munger - Wesco Financial AGM – 1994*

Over long periods, TSR cuts through differences in accounting, capital structures, and business models, providing a clean, comparable outcome metric.

Absolute Performance Benchmark

Using TSR also allows comparison to the broader market.

S&P 500 Total Return (2020–2025):

- CAGR: 15.1%

This provides a useful absolute yardstick.

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2) Total Shareholder Return (TSR)

TSR includes:

- Share price appreciation
- All dividends paid (including special dividends)

Results (2020–2025):

- Fairfax ranks #1 again
- Total return: +322%
- CAGR: 27.1%

Only two companies beat the S&P 500 total return over the period:

- Fairfax
- W.R. Berkley

Most peers delivered respectable mid-teens returns. Fairfax's performance, by contrast, has been exceptional—dramatically outpacing both the market and the peer group.

Measuring Performance - P/C Insurance Peers - Total Shareholder Return							
	Share Price			Total Dividends Paid	Total Shareholder Return		
	Dec 31 2025	Dec 31 2019	6-Yr Increase		Per Share	%	CAGR
Fairfax	$1,908	$469.11	$1,439	$70.00	$1,509	322%	27.1%
WR Berkley (1)	$70.12	$30.71	$39.41	$5.24	$44.65	145%	16.1%
S&P 500 (2)	6,846	3,231	3,615	655	4,270	132%	15.1%
Travelers	$290	$136.95	$153	$22.96	$176	129%	14.8%
Berkshire B	$503	$226.50	$276	$0.00	$276	122%	14.2%
Intact Fin (C$)	$286	$140.42	$145	$25.28	$171	121%	14.2%
Chubb	$312	$155.66	$156	$20.38	$177	114%	13.5%
Markel	$2,150	$1,143	$1,006	$0.00	$1,006	88%	11.1%
(1) WRB - Adjusted for 3 for 2 share split in Feb 2022 and a second one in July 2024							
(2) S&P 500 total dividends paid is an estimate to get to the correct total return							

Interpreting the Results

Whether measured by:

- BVPS growth + dividends, or
- Total shareholder return

Fairfax delivered outstanding performance over the six-year period from 2020 to 2025—both in absolute and relative terms.

What Drove the Results?

- Steady improvement and strong growth in insurance operations
- Major gains in the investment portfolio
- Record earnings generation
- Best-in-class capital allocation
- Compounding working its magic
- A favorable external environment aligned with the company's capabilities

The natural next question:

How is the market rewarding this top-tier performance?

Valuation Analysis

1) Price-to-Book Value (P/BV)

- Fairfax P/BV: 1.36

Fairfax has the lowest P/BV in the peer group.

Compared to higher-valued names such as W.R. Berkley and Intact Financial, Fairfax trades at a meaningful discount. Importantly, Fairfax's book value materially understates its economic value. Adjusting for this suggests the company's economic P/BV is even lower.

In other words, the stock is cheaper than it appears based on reported numbers.

Peer Comparison Price to Book Value	P/BV	Sh Price Feb 12 2026	BVPS Dec 31 2025 (1)
WR Berkley	2.79	$71.65	$25.72
Intact Fin (C$)	2.43	$260	$107.35
Travelers	1.97	$297	$151
Chubb	1.76	$333	$189
Berkshire B	1.49	$500	$335
Markel	1.41	$2,082	$1,477
Fairfax	1.36	$1,710	$1,255
(1) Estimate for Berkshire and Fairfax			

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2) Price-to-Earnings (P/E)

While P/E is not ideal as a stand-alone metric for insurers, it remains useful for peer comparison.

- Fairfax trailing P/E: 8.6

Once again, Fairfax screens as the cheapest stock in the group—by a wide margin.

Peer Comparison Price to Earnings	P/E	Sh Price Feb 12 2026	Earnings 2025 (1)
WR Berkley	16.1	$71.65	$4.45
Berkshire B	15.6	$500	$32.00
Intact Fin (C$)	14.2	$260	$18.35
Chubb	12.9	$333	$25.68
Markel	12.3	$2,082	$169.22
Travelers	10.8	$297	$27.43
Fairfax	8.6	$1,710	$200.00
(1) Estimate for Berkshire and Fairfax			

Summary of Findings

Performance

Over the past six years, Fairfax has delivered:

- Best-in-class BVPS growth + dividends
- Best-in-class total shareholder return

Valuation

Despite this performance, Fairfax currently trades at:

- P/BV: 1.36
- P/E: 8.6

Both are the lowest among peers.

Conclusion:

Investors can buy the top-performing P/C insurer—with strong future prospects—at the lowest valuation in its peer group.

Peer Comparison - Summary of Key Valuation Metrics

	6-Year CAGR TSR (1)	6-Year CAGR BVPS (2)	Feb 12, 2026 P/BV (3)	Feb 12, 2026 P/E (4)
Fairfax	27.1%	18.2%	1.36	8.6
WR Berkley	16.1%	13.2%	2.79	16.1
Travelers	14.8%	9.4%	1.97	10.8
Berkshire B	14.2%	11.6%	1.49	15.6
Intact Fin (C$)	14.2%	16.2%	2.43	14.2
Chubb	13.5%	9.3%	1.76	12.9
Markel	11.1%	10.7%	1.41	12.3

(1) Total Shareholder Return - share price increase + dividends
Dec 31, 2019 to Dec 31, 2025
(2) BVPS + Dividends: Dec 31, 2019 to Dec 31, 2025
(3) Share price at Feb 12, 2026; BV at Dec 31, 2025
(4) Share price at Feb 12, 2026; Earnings 2025E

Interpreting the Disconnect

What explains the valuation gap?

Management quality?

- Best-in-class (we have gone into great detail on this important topic in the past)

Earnings quality?

- Highest in the company's history; durable and repeatable

Future prospects?

- Stronger than ever, with both insurance and investment engines performing at a high level

So, what else could explain it?

Likely factors include:

- Smaller company – not widely followed
- Management is not promotional
- Business model is complex
- Unorthodox methods
- Past trust issues and a colorful history

Fairfax remains under-followed. It is hard to understand. It is unconventional. As a result, it is often misunderstood and underappreciated – conditions that can lead to persistent mispricing.

This is not a complaint. It is simply an attempt to be rational and grounded. Investors need to operate in the world as it exists—not as they wish it existed.

Being Perpetually Undervalued – A Feature, Not a Bug

Is owning a perpetually undervalued compounding machine a bad thing?

For long-term investors, it can be a meaningful advantage.

Benefits for Investors

1. Long learning runway – Time to build conviction
2. Position sizing – Easier to hold a concentrated stake
3. Patience – Less temptation to sell due to overvaluation concerns

Benefits for Fairfax

Persistent undervaluation creates an opportunity to repurchase shares at attractive prices.

This is essentially the "Buffett dream scenario":

A high-quality business earning strong returns on capital while buying back stock at low multiples for years. Each buyback at a low multiple accelerates per-share value creation.

Will Fairfax do it?

Based on their actions in recent years, yes.

Over the past six years, Fairfax has spent $4.5 billion repurchasing shares and reduced effective shares outstanding by 5.8 million (21.7%).

- Average cost: $773
- Share price (Feb 10, 2026): $1,710

Outstanding.

Fairfax - 6-Year Reduction in Shares Outstanding

Year	Effective Shares YE m	Share Reduction m	Cost Total $b	Cost Per Share
2019	26.8	n/a	n/a	n/a
2020	26.2	0.66	$0.20	$298
2021	23.9	2.31	$1.13	$490
2022	23.3	0.54	$0.28	$509
2023	23.0	0.32	$0.25	$764
2024	21.7	1.34	$1.57	$1,179
2025E	21.0	0.67	$1.09	$1,625
6-Year Total		**5.83**	**$4.51**	**$773**
		21.7%		

How the Big Money Gets Made

Fairfax is a compounding machine.

These businesses are rare. When you find one, the key is simple:

Hold it. Let it compound.

Paradoxically, persistent undervaluation can make that easier—and more profitable—over time.

Valuing Fairfax as a Turnaround

October 12, 2023

Fairfax has been an exceptionally difficult company for investors to value for the past three years. And especially right now (given the sharp rise in the stock price). Even investors who have followed the company closely for many years are having a hard time. New investors don't stand a chance.

Mr. Market is saying Fairfax has a fair value today of $832/share (that is where the stock closed October 12, 2023). I think the stock is still wicked cheap. Lots of other smart investors feel the stock is only mildly cheap.

What is the fundamental problem?

There is no consensus of what level of earnings the collection of assets that Fairfax currently owns can deliver on a regular basis moving forward. Or what to expect for the next 3 to 5 years.

Most investors prefer to use book value as their primary tool to value Fairfax. It is an insurance company after all. And using book value is supposed to be the proper way to value an insurance company. Using book value also conveniently allows an investor to largely ignore earnings (coming up with an estimate). And given the lack of consensus around earnings for Fairfax… well isn't that a good thing?

Well, easy and good are not the same thing.

What is the best way to value Fairfax today?

Just like any job, we need to pick the right tool. To do this we need to answer the following question.

Is Fairfax an insurance company or a turnaround play?

No, this is not a trick question. The answer, of course, is that Fairfax today is both. **But we are talking here about how to value Fairfax as a company.**

My view is today Fairfax should be valued primarily through the lens of a turnaround play. Not as an insurance company.

Does it make that much of a difference?

It makes a huge difference.

Using book value (P/BV and ROE) to value insurance companies with relatively consistent financial results over a 5 or 10-year period makes a lot of sense. But using book value (P/BV and past ROE) as the primary measure to value a turnaround like Fairfax makes little sense, especially when they are still in the middle of the earnings part of the turnaround.

The problem with book value (P/BV and ROE) is it is a 'rear view mirror' valuation measure - it does a great job of telling you what has happened. And for lots of insurance companies what 'has happened' is likely to continue to happen in the future. So, using book value (P/BV and ROE) as a primary valuation tool makes sense.

But for a turnaround like Fairfax, where a massive amount of change is happening - which is leading to much higher earnings - focussing primarily on the past is going to mess investors up. It is going to cause them to way under estimate future earnings. This in turn is going to cause them to under value the company. And that is going to lead to poor investment decisions.

A lot of investors who follow Fairfax are probably wondering how they missed the big move in the stock over the past 3 years. My guess is the key issue is too much 'rear view mirror' analysis and not enough 'looking out the front windshield' analysis. The difference between valuing a stodgy insurance company versus valuing a turnaround.

How should an investor value a turnaround?

Let's look to Peter Lynch for some insight. Peter Lynch loved turnarounds. It was one of the 6 buckets he used to classify his stock investments. Classifying stocks properly at the beginning of the process is critical. Because the classification determines the proper method to use to analyze the stock.

To value a turnaround, it is critical to do three things:

1. Understand what went wrong.
2. Confirm that whatever went wrong has indeed been fixed.
3. Focus in on evaluating the assets and estimating the trajectory of earnings.

1.) What went wrong at Fairfax?

Fairfax has three economic engines: insurance, investments - fixed income and investments - equities/derivatives.

Fairfax's insurance business has been a solid performer over the past decade. And their investments - fixed income economic engine has also performed well. The issue at Fairfax was the investments - equities/derivatives engine.

The good news for Fairfax was the solution to their poor performance was fully within their control. They just needed to stop doing some really dumb things (putting it politely) in one part of the company.

2.) What was the fix?

To right the ship in the equities/derivatives engine, Fairfax did a few things:

- End the equity hedge/shorting strategy. The equity hedge positions were exited in late 2016. The final short position was sold in late 2020. Done.
- Make better equity purchases. This started in 2018. Done.

- Fix poorly performing equity purchases from 2014-2017. This started in 2018 and looks like it was largely completed in 2022. Done.

But Fairfax didn't stop here. They did even more:

- Since 2020, they have made at least one brilliant decision each year:
    - Late 2020/early 2021: initiated the FFH total return swap position, giving exposure to 1.96 million Fairfax shares at $373 share (resulting in a $900 million pre-tax gain to date)
    - Late 2021: bought 2 million Fairfax shares at $500/share (book value is currently $834/share and intrinsic value is likely well over $1,000).
    - June 2022: sale of pet insurance for $1.4 billion ($992 million after-tax gain).

And the insurance gods have also been smiling on Fairfax:

- A hard market in P/C insurance started in Q4, 2019. It looks like it will continue into 2024.

And if all that wasn't enough, the macro gods also decided to smile on Fairfax, delivering to the company their biggest gift yet:

- After dropping interest rates to close to zero in late 2021, the Fed pivoted and spiked rates to more than 5% in 2023. Fairfax navigated their $38 billion fixed income portfolio through the treacherous storm perfectly - and the gold ($billions) is literally raining down today.

So, Fairfax not only stopped doing dumb things, they also started hitting the ball out of the park. At the same time both the insurance and macro gods started smiling on the company.

Each of these things on their own would have caused earnings to grow significantly over their historical trend. Stacked one on top of the other - well earnings have exploded higher.

In short, the turnaround at Fairfax that began back around 2018 now looks complete. But importantly, the lift to earnings will likely take a few more years to fully play out.

3.) What is happening to earnings at Fairfax

We are going to focus on operating income given this is considered the quality part of earnings for an insurance company. Operating income averaged $1 billion ($39/share) each year for 5 years from 2016-2020. From this base operating income has:

- Doubled to $1.8 billion in 2021.
- Tripled to $3.1 billion in 2022.
- Is on pace to quadruple to $4.3 billion in 2023.
- Is on pace to quintuple to $4.9 billion, or $214/share, in 2024.

How would an investor focussed primarily on book value have seen any of this coming? The answer is easy… they would have completely missed it. In fact, they probably still are missing it.

Fairfax - Operating Income									
October 12, 2023	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Underwriting profit - ins & reins.	$576	-$642	$319	$395	$309	$801	$1,105	$1,271	$1,294
Interest & dividends	$555	$559	$784	$880	$769	$641	$962	$1,945	$2,525
Share of profit of associates	$24	$201	$221	$170	-$113	$402	$1,015	$1,075	$1,050
Operating income - ins & reins	**$1,155**	**$118**	**$1,323**	**$1,444**	**$965**	**$1,844**	**$3,082**	**$4,291**	**$4,869**
Per share	$50	$4	$49	$54	$37	$77	$132	$186	$214
Shares Outstanding Dec 31	23.1	27.75	27.2	26.8	26.2	23.9	23.3	23.1	22.7
	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Earnings Per Share	-$24	$67	$12	$73	$7	$129	$47	$151	$158
Dividend	$10	$10	$10	$10	$10	$10	$10	$10	$10
Year End Book Value Per Share	$367	$450	$432	$486	$478	$631	$658	$903	$1,051
Return On Equity (average)	-7%	16.3%	2.7%	15.9%	1.4%	23.3%	7.2%	18.1%	16.1%
						IFRS-17	$762		

What are we learning about Fairfax's collection of assets?

Beginning as far back as 2021, investors were getting glimpses that something good was happening at Fairfax. In 2022, it was becoming obvious that 'new Fairfax' had arrived - but the good news was masked in the top line results by the bear market in financial markets and the large unrealized losses in fixed income and equities. But the change was obvious to those of us who followed the company closely. In 2023, the story continues to improve. And 2024 looks even better.

What we are learning is Fairfax was significantly under earning on its collection of assets for much of the past decade. But all the shackles that were holding earnings down have now been removed. Management is executing exceptionally well. For the first time in the company's history, the three economic engines are all delivering record results at the same time: insurance, investments - fixed income and investments - equities/derivatives.

Investors are just starting to get a look at what the true (normalized) earnings power of Fairfax is on a go forward basis. And the number is far higher than anyone dreamed possible.

What is the valuation of Fairfax today?

Board members probably wonder why I have been so focussed on earnings in my analysis of Fairfax the past two years. Well, now you know why. I view Fairfax currently as a turnaround type of investment - and a heavy focus on earnings and assets is the only rational way to analyze the company today.

It's not that I don't pay attention to book value. I do. I just have never trusted how useful it is a tool to help me better understand its earnings power of the company today.

My current estimate is Fairfax will earn about $150/share in 2023. I think that is a good baseline to use for earnings moving forward. If my analysis is right then that means Fairfax is trading at a PE of 5.5 x my estimated 2023 earnings. I think that is nuts.

Fairfax Financial (US$)	
Stock Price - Oct 12, 2023	$832
2023 Earnings Estimate	$150
P/E	5.5
Book Value - June 30, 2023	$834
P/BV	1.00
ROE	18%

What does the future hold?

> "Companies don't stay in the same category forever. Over my years of watching stocks, I've seen hundreds of them start out fitting one description and end up fitting another."
>
> *Peter Lynch - One Up On Wall Street*

Over the next couple of years, we will all come to better understand Fairfax. And what its collection of assets are capable of delivering. What the true 'normalized' earnings power of the company is. At that point in time, the turnaround will long be over. And Fairfax will revert to being another predictable, boring old insurance company. And at that time, the valuation metrics (like book value, P/BV and ROE) generally used for valuing boring old insurance companies will again be appropriate to use for Fairfax.

If Fairfax is able to deliver strong earnings growth in the coming years the much improved results will slowly get baked into its historical numbers. That is when more traditional insurance investors will start to 'discover' how well managed Fairfax is. And how cheap the stock is. As this process plays out the P/BV multiple will likely expand significantly from 1.0 today to something more in line with peers, perhaps north of 1.3 (perhaps higher).

Another reason Peter Lynch liked turnarounds:

> "The best thing about investing in successful turnarounds is that of all the categories of stocks, their ups and downs are least related to the general market." *Peter Lynch - One Up on Wall Street*

Fairfax is up 144% since December 31, 2020. The S&P500 is up 16%. Fairfax's outperformance over the S&P500 over the past 33 months has been an amazing 128%. Yes, Peter Lynch is one smart dude.

Fairfax	stock price (US$)	increase	increase over past 33 months	S&P500 (US$)	increase	increase over past 33 months
31-Dec-20	$340.94			3,756		
31-Dec-21	$492.13	44%		4,766	27%	
31-Dec-22	$594.12	21%		3,840	-19%	
12-Oct-23	$832.32	40%	144%	4,350	13%	16%

Peter Lynch on Turnarounds

"These are stocks that are battered down or they are hated companies, or they have been forgotten about. They are depressed in price but you have determined some one thing or a few things that have the potential for reversing this company's fortunes independent of the industry getting better, or the economy getting better.

"You always have to do a balance sheet check on any company. This includes turnarounds. Do they have enough cash to make it through the next 12 months or the next 24 months? Do they have a lot of debt that's due right now? These are important questions to answer.

"Make sure you understand and believe in the plan to restore corporate profits. It is all internal. They are doing something, either a new product, new management, cutting costs, getting rid of something. Something inside the company that allows them to improve themselves.

"Lots of turnarounds never happen, but a few winners can make up for a lot of losers. What's important is to wait for the actual evidence of the turnaround occurring, not just the symptoms. (With) the turnaround, you have plenty of time. So just don't buy on the hope. Wait for the reality. Turnarounds are so big it is worth waiting to get some real evidence."

https://youtu.be/DYyLrrQ0Os4?si=5ax4xmZr0OiGxXUP

The Drivers of a share price – Earnings, Multiple and Share Count

February 2, 2024

Three things drive a share price:

1. Earnings
2. Multiple
3. Share count

In buying a stock, an investor is buying a stream of future earnings. The multiple is simply the price an investor is willing to pay for the stream of future earnings. These are called fundamentals.

Understanding the change in each of these items gives an investor great insight into the likely future path of a stock. It's like being able to predict the future.

Of course, the perfect set-up for an investor is to find a company that is:

1. Growing earnings
2. Experiencing multiple expansion
3. Reducing its share count

Finding a company where one of these things is happening is usually pretty good. Finding a company where two are happening at the same time - that usually leads to market-beating returns. Finding a company where all three things are happening at the same time - well, that is how the big money is made - or multi-baggers in Peter Lynch parlance.

Theory is great. But is it actually possible for an investor to find a stock that is poised to do all three at the same time? Aren't markets supposed to be pretty efficient?

Well grasshopper, let's pivot to the real world and look at an unloved, scrappy P/C insurance company called Fairfax Financial. Yes, it is still unloved... we will show you why in this post.

A real life example: Fairfax Financial

Buybacks

Let's start with share buybacks because they are the easiest.

Over the last 4.75 years Fairfax has spent $1.94 billion and reduced effective shares outstanding by 4.12 million or a total of 15.1% (3.2% per year). This is a material reduction in share count. The average cost was $470/share. With shares closing Friday at $1,030, the shares were purchases at an average cost well below their intrinsic value. This is an example of great capital allocation on the part of management at Fairfax. Share count has been materially coming down for the last 4.75 years at Fairfax.

We can check off box three from our list above.

Fairfax - Reduction In Effective Shares Outstanding - Last 4.75 Years				
	Shares	Change		
Year End	Dec 31	Shares	%	Comments (US$)
2018	27,237,947	n/a	n/a	
2019	26,831,069	-406,878	-1.5%	Avg price = $464/share
2020	26,176,506	-654,563	-2.4%	Avg price = $298/share
2021	23,865,600	-2,310,906	-8.8%	Avg price = $490/share
2022	23,325,305	-540,295	-2.3%	Avg price = $509/share
Sept 30 2023	23,115,838	-209,467	-0.9%	9 Month avg price = $698/share (Sept 30)
Total decline in shares		-4,122,109	-15.1%	2018 to Sept 2023. Avg price = $470/share
Average annual decline		-867,812	-3.2%	4.75 year average decrease

Earnings

Let's move now to earnings. Earnings at Fairfax have spiked over the past 3 years. And because of the significant reduction in shares, per share earnings are up even more.

When analyzing P/C insurance companies, analysts prefer to look at operating income. It removes the volatility tied to 'icky' investment gains. Ok, let's play be their rules and only look at the 'good stuff' - operating income.

Operating income at Fairfax averaged $1 billion ($39/share) per year for the 5-year period from 2016-2020. Over the next 3 years (2021-2023) it was like a goat going straight up a mountain. For 2023 my estimate is operating earnings will come in around $4.4 billion ($190/share). This is a 387% increase per share. My forecast is for operating income to come in around $4.6 billion ($202/share) in 2024. This higher level is durable and growing. Bottom line, we are seeing a significant increase in earnings at Fairfax.

We can check off box 1 from our list above.

Fairfax - Operating Income									
December 31, 2023	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Underwriting profit - ins & reins.	$576	-$642	$319	$395	$309	$801	$1,105	$1,373	$1,270
Interest & dividends	$555	$559	$784	$880	$769	$641	$962	$1,929	$2,250
Share of profit of associates	$24	$201	$221	$170	-$113	$402	$1,015	$1,100	$1,100
Operating income - ins & reins	**$1,155**	**$118**	**$1,323**	**$1,444**	**$965**	**$1,844**	**$3,082**	**$4,402**	**$4,620**
Per share	$50	$4	$49	$54	$37	$77	$132	$190	$202
Shares Outstanding Dec 31	23.1	27.75	27.2	26.8	26.2	23.9	23.3	23.2	22.9

Multiple

What about multiple?

Share count and earnings are relatively easy to understand - they are largely based on numbers.

Multiple can be a more difficult nut to crack. Yes, it is based on numbers. But it is also steeped in psychology. To give multiple the attention it deserves we are going to write about it in a separate post.

Multiple Expansion – A Deep Dive

In this post, we will do a deep dive on multiple to see what we can learn. First, we will zoom out and look at the big picture. And then we will zoom in and apply what we have learned to Fairfax.

This post is broken into the following parts:

- Part 1 - Multiple
- Part 2 - Turnarounds
- Part 3 - The turnaround is complete - the caterpillar has transformed into a butterfly
- Part 4 - Narrative change and multiple expansion
- Part 5 - Multiple expansion - What does the math look like?
- Appendix - Is growth in book value a good measure of quality?

Part 1 - Multiple

What is the multiple for a stock?

A multiple is a quick and easy way to value a company. It is best used to compare valuations of companies in the same industry.

A low multiple (when compared to peers) suggests a stock may be undervalued - a high multiple suggests the opposite.

What determines the multiple a stock trades at?

Two things primarily drive the multiple:

1. Past results and events. The facts.

We all know the axiom: "The best predictor of future behaviour is past behaviour." Well, it appears the same holds true for financial results.

2. Narrative. This is 'the story,' or how the facts have been interpreted. A large part of narrative is driven by psychology.

Most companies are pretty predictable animals. They tend to have the same management team. Future earnings tend to follow in an arc consistent with their historical trend. A narrative - that is

reasonably accurate - settles in over time for most companies. And it tends to remain largely the same, sometimes for decades.

As a result, most companies tend to trade at a pretty stable multiple over the years (within a stable band).

Let's steer this discussion back to Fairfax. To do this we need to bring turnarounds into the picture.

Part 2 - Turnarounds

As part of his investment framework, Peter Lynch classified all stocks into six broad categories - one of which was turnarounds.

With turnarounds, past results/events usually have been pretty bad. This usually results in a narrative that is quite negative. Lower earnings and a poor narrative tend to compress the multiple - often to extremes. This set-up usually causes the share price to crater.

Why did Lynch like turnaround plays so much?

Lynch loved turnarounds because of their potential to become big winners - sometimes 5 and even 10 baggers. Another benefit is the returns are usually not correlated with the overall market.

Why are successful turnarounds so lucrative for investors?

When investing, your starting point matters. Buy low. The stocks of lots of turnaround plays have been left for dead by investors - often you can buy them at crazy low prices.

For successful turnarounds, two things happen. But usually along two very different time-frames:

1. Short term (1 to 2 years): earnings turn.
2. Medium term (3 plus years): multiple expansion.

Of course, higher earnings tend to lead to a higher stock price. Facts are facts.

But multiple expansion? This usually takes years to happen.

Why?

The multiple is largely driven by the looking through the rear-view mirror - a narrative that has been constructed from past events.

For successful turnarounds it often takes years for the narrative to get updated.

Why does it take so long?

There are a couple of reasons.

1. Most turnarounds are under-followed. For the most part these are companies that have disappointed investors for years. Analysts? Investment professionals? Losing your clients money year after year by recommending a shitty stock is never a good career move. As a result, most turnarounds become hated companies.

Lack of coverage results in an information disadvantage. Of course, some turnarounds actually turn around. And guess what? Pretty much no one notices - because no one is following the company anymore. And if no one is following the company it is impossible for the old narrative to change - even after the fundamentals have turned.

2. There is a second reason it takes a long time for narratives to change and it is very powerful. **Holding on to an old (wrong) narrative requires no work.** After all, people are busy.

Updating a narrative? Now that is hard. It requires a lot of work. And in the beginning almost everyone around you is going to think you are an idiot.

But over time (sometimes years in length), as it becomes obvious to more and more people that the turnaround has actually happened, the 'story' around a stock gets to an inflection point. And those clinging to the old narrative are the ones who start to sound like idiots. And do you want that 'crazy uncle' managing your money? (Darwin at work on Bay and Wall Street.)

Eventually, the narrative does get updated. And as that happens, we see multiple expansion.

So, what does all this have to do with Fairfax?

Fairfax is a turnaround play. That has turned around. It actually started to turn around all the way back in late 2016 when it removed all the equity hedges (Trump getting elected was apparently a great event for Fairfax shareholders). It picked up steam in 2018 and 2019 when the company got to work fixing its poor-quality equity portfolio. We probably could say the turnaround was largely done at the end of 2020 when Fairfax covered its last short position.

For sure, the turnaround was done by the end of 2021 - that is when all the positive changes from the previous years started to show up in much higher (record) operating income.

Bottom line, the turnaround at Fairfax was completed years ago. Yes, I know… shocker!

Fairfax has transformed itself over the past 6 years into a high-quality P/C insurance company. And that matters a lot when it comes to multiple. This is what we are going to explore next.

Part 3 - The turnaround is complete - the caterpillar has transformed into a butterfly

How do we know Fairfax has transformed itself into a high-quality insurance company?

To help us answer this question we are going to look at something called return on equity (ROE).

Return on equity (ROE)

Return on equity is a measure of how profitable a company is. The bigger the number - the higher the quality.

We are also going to look at operating income ROE (which I will call OI-ROE). This is viewed by the P/C industry as being a higher quality measure of ROE.

Operating Income ROE at Fairfax

- For the 5-year period from 2016-2020, the OI-ROE averaged 9%.
- For the 3-year period from 2021-2023, the OI-ROE averaged 19%.
- My estimate for 2024 is 20%.

OI-ROE has doubled from 9% to about 20%. That is a massive increase.

OI-ROE of 20% is top-tier performance among P/C insurers. Fairfax is tracking in 2024 to deliver its 4th year in this range. That is exceptional performance and a material increase from what it delivered in the past.

Fairfax - Operating Income									
December 31, 2023	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023E**	**2024E**
Underwriting profit - ins & reins.	$576	-$642	$319	$395	$309	$801	$1,105	$1,373	$1,270
Interest & dividends	$555	$559	$784	$880	$769	$641	$962	$1,929	$2,250
Share of profit of associates	$24	$201	$221	$170	-$113	$402	$1,015	$1,100	$1,100
Operating income - ins & reins	**$1,155**	**$118**	**$1,323**	**$1,444**	**$965**	**$1,844**	**$3,082**	**$4,402**	**$4,620**
Per share	$50	$4	$49	$54	$37	$77	$132	$190	$202
Shares Outstanding Dec 31	23.1	27.75	27.2	26.8	26.2	23.9	23.3	23.2	22.9
Operating Income ROE	13%	1%	11%	12%	8%	14%	21%	24%	20%
E = average equity	5-Year Average (2016-2020) = 8.9%					3-Yr Avg (2021-2023E) = 19.5%			

I can hear the naysayers yell out as they are reading this post… "Ya, but it's not sustainable!"

To which I would answer: 3 years in a row at an average OI-ROE of 19.5% is in the books (well, should be when Fairfax reports Q4 results). A 4th year at 20% looks likely. Is 4 years in a row not the beginning of a trend? Maybe not 20%. But even something in the high teens range over the next 5 years would put Fairfax into the top tier of P/C insurers.

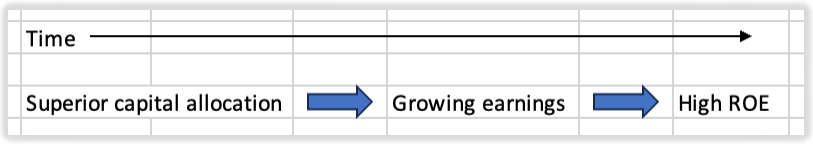
I could also bring up investment gains. This is something we have completely ignored but is a clear strength of Fairfax (when compared to peers). Pet insurance? Sold in 2022 for a $1 billion gain after-tax. The FFH-TRS position (providing exposure to 1.96 million Fairfax shares) is up $1.3 billion (pre-tax) over the past 37 months. I could go on. Volatile? Yes. But smoothed out over a few years, the average number is a significant contributor to Fairfax's regular ROE calculation. Just something to keep in mind.

But to help us answer the question of whether or not the high OI-ROE is sustainable, let's peel the onion back one more layer.

What is the best predictor of long-term results for a company?

The best predictor of long-term results for a company is quality of the management team and their capital allocation skills. This is especially true for P/C insurance companies because of something called float (which can be larger in size than shareholder's equity).

The quality of the capital allocation decisions being made by management is likely the best leading indicator for future ROE for a P/C insurer.



Of course, it takes years for good capital allocation decisions to show up in higher earnings and higher ROE. Especially for a turnaround like Fairfax. But that is exactly what we have been seeing in each of the past three years.

But the story gets better. I wrote a very long post last week where I went into great detail on Fairfax's capital allocation record over the past 6 years or so. The conclusion? Fairfax looks best-in-class in the P/C industry.

If you have one of the best capital allocation teams in the industry, and they have been hitting the ball like Ted Williams over the past 6 years, what do you think ROE will look like in the coming years? Above average for sure. And probably even better than that.

As a result, I think the facts and evidence points to Fairfax being a high-quality insurance company.

How is Mr. Market valuing Fairfax? Finally, we get to our answer!

ROE and P/BV

Return on equity (ROE) and price to book value (P/BV) are the preferred metrics used by investors to value P/C insurance companies. Looked at together, they tell investors a story about the company.

Over time, a high and sustainable ROE inevitably results in a high P/BV multiple. The opposite is also true: a low ROE generates a low P/BV multiple.

Return on equity

Earlier we learned that OI-ROE at Fairfax is tracking to overage 20% from 2021-2024. That is top tier performance.

Let's now compare that to P/BV.

Price to book value (P/BV)

This measure tells us what Mr. Market thinks about the future prospects of the company. Or put another way, is ROE sustainable?

Fairfax's P/BV is about 1.11 (if we use estimated 2023 YE book value). Compared to peers, Fairfax's P/BV is at the very bottom. A P/BV near 1 suggests the P/C insurer is both poorly run and has poor prospects.

Fairfax has a very high ROE (with solid prospects). The company is high quality. Yet, its P/BV multiple is very low. This suggests Fairfax is very undervalued.

Fairfax (US$)		
Share Price	$1,031	Feb 2, 2024
Book Value *	$932	Est Dec 31, 2023
P/BV	1.11	
ROE (average equity)**	20%	
BV* = $877 + $55 (Yahoo Finance Q4 est)		
ROE average equity** = ($932 + $762) / 2		

What about PE?

I know PE is not supposed to be used to value a P/C insurance company. But it is a useful measure for most companies so let's see what it has to say.

Using Yahoo Finance's current earnings estimate for FY 2023, we can see Fairfax is currently trading at a PE of 6x. That is crazy low. Both when compared to peers and the market in general.

Fairfax (US$)	**Feb 2, 2024**	
Share Price	$1,031	
2023 Earnings Estimate	$173	Yahoo Finance Est
P/E	6.0	

Summary

Fairfax is a high-quality company delivering top-tier ROE. Trading at what looks to be very cheap valuation as measured by both P/BV and PE.

Is there anything that can explain this disconnect?

Yes. The narrative surrounding the company is in need of an update. The part driven by psychology.

Thanks for hanging in there. We've come full circle. Let's finish connecting the dots.

Part 4 - Narrative change and multiple expansion

> "Although expectations of the future are supposed to be the driving force in the capital markets, those expectations are almost totally dominated by memories of the past. Ideas, once accepted, die hard." *Peter Bernstein*

Fairfax and narrative

Fairfax had one analyst attend their Q3 conference call. Tom MacKinnon/BMO, you get a gold star from the teacher. The lack of interest in Fairfax in the analyst community suggests to me that the old narrative is still firmly in place.

After all, it is Fairfax. That shitty little Canadian insurance company. Right?

Even Rodney Dangerfield would be surprised at the lack of respect Fairfax still gets today - even though it is a top 25 global P/C insurer and now one of the 30 largest Canadian companies in terms of market cap.

Yes, but the stock is a dog! Woof! Right? Fairfax has probably been one of the best performing large cap stocks in Canada over the past three years (the best?). But, hey, don't let the facts get in the way of a good narrative.

Fairfax (US$)	Share Price	YOY change		S&P500	YOY change	
Dec 31, 2020	$341		increase	3,756		increase
Dec 31, 2021	$492	44%	over	4,766	27%	over
Dec 31, 2022	$594	21%	past 37	3,840	-19%	past 37
Dec 31, 2023	$921	55%	months	4,770	24%	months
Feb 2, 2024	$1,031	12%	202%	4,959	4%	32%

To be fair, the quality of the research on Fairfax has been getting better, especially over the last year. I recently read Jaeme Gloin/National Bank's Q4-2023 earnings preview for Fairfax and I had to wipe the tears from my eyes when I was done - it was that good. And not because he upped his price target to $C2,000. It was because of the facts and logic he provided readers - the detailed build - which he used to arrive at his conclusions (final earnings estimate, multiple and price target). It was clear Jaeme has actually put in the work to understand the Fairfax as it exists today (that doesn't mean he is ignoring the past).

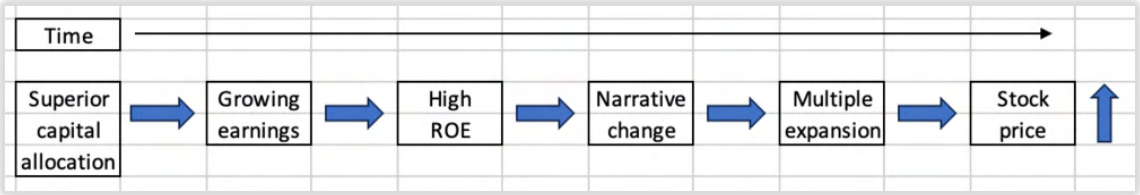
But there is also, IMHO, still one piece of simply terrible stuff out there. 'Crazy uncle' bad. This one is so steeped in the past it reads like it was actually written 10 years ago. (Maybe it was…. I better check the date.) Anyone who follows Fairfax closely knows the report that I am referencing. Now when you can go unnamed - and yet people know who you are? Well, that's pretty impressive. But is it really?

The good news is the old narrative around Fairfax will eventually be laid to rest. And that's because you can only ignore the facts and the fundamentals for so long.

Multiple expansion

My view is 2024 could well be the year when we get to an inflection point in the narrative for Fairfax. In fact, it looks like it might have started as we begin 2024. In January the P/BV multiple has expanded from 1.0 to 1.1.

As the narrative gets updated, Fairfax will shift from being valued as a poorly run company delivering poor results to being valued as a well-run company delivering very good results. In turn, this should result in multiple expansion. Yes, Fairfax will need to do its part - and continue to deliver solid results.



So, with Fairfax today, it looks like we have a situation where:

1. Earnings are growing
2. Multiple is expanding
3. Share count is falling

And all three happening at the same time? That is when the big money is made.

Part 5 - Multiple expansion - What does the math look like?

The example below is not intended to be a forecast. Rather it is intended to demonstrate to investors the power of multiple expansion (when it happens). Readers can overlay their own assumptions as they see fit.

To keep our analysis simple, we are going to use Dec 31, 2023 as our starting point. Let's be conservative and assume Fairfax only earns $150 in 2023 (instead of the forecast of $170). Let's also assume Fairfax continues to pay a $15 dividend. Let's be conservative and assume Fairfax grows earnings at 6% per year.

Now for the fun part. Let's assume the P/BV multiple expands from 1x at Dec 31, 2023 (where it was) to 1.3x at Dec 31, 2026. A multiple of 1.3x would get Fairfax to the lower band when compared to peers - I think it is a conservative number.

Given the inputs above, what is the return for investors over 3 years?

The total increase is 100%. A double over 3 years. Of the total increase, about 50% is driven by earnings. And 50% is driven by multiple expansion. Yes, multiple expansion is rocket-fuel to a stock.

Fairfax: Impsct of Multiple Expansion					3-Year
	2023	2024	2025	2026	Return
EPS *	$150	$158	$165	$174	
Growth	6.0%				
Dividend		$15	$15	$15	$45
BV at YE **	$932	$1,075	$1,225	$1,384	5%
Multiple at YE	1.0	1.2	1.25	1.3	
Stock Price at YE	$921	$1,289	$1,531	$1,799	
Increase / share		$369	$242	$267	$878
		40%	19%	17%	95%
Total					**$923**
					100%
EPS * to be conservative, let's lower 2023 EPS to $150.					
BV at YE** using Yahoo Finance Q4 earnings estimate					

Hidden Value at Fairfax: When Accounting Value and Economic Value Diverge

May 31, 2026

Fairfax has been transformed over the past five years.

Record earnings, high-teen ROEs, and strong growth in book value per share tell part of the story. But an increasingly important portion of Fairfax's value creation is not fully captured in EPS, ROE, or BVPS.

The gap between accounting value and economic value — what I call hidden value — has become one of the most important drivers of Fairfax's future earnings power and intrinsic value growth.

And the gap is widening.

Hidden value is not new at Fairfax. Historically, much of it resided within the insurance operations. What has changed since 2018 is that hidden value is increasingly being created within Fairfax's equity investment portfolio and operating businesses.

That shift has important implications for investors because it affects how Fairfax should be analyzed, valued, and compared with traditional P/C insurers.

Valuation Basics: Why Book Value Matters

For traditional P/C insurers, valuation is relatively straightforward.

The relationship between book value, ROE, and the price-to-book multiple forms the foundation of the framework.

Book value represents the capital supporting underwriting and investment activity. ROE measures how effectively management compounds that capital. The P/BV multiple reflects the market's assessment of the quality, durability, and riskiness of future returns.

The relationship is simple:

- Higher sustainable ROE generally deserves a higher P/BV multiple.
- Lower ROE generally deserves a lower multiple.

This framework works well because traditional insurers are primarily invested in bonds and other liquid mark-to-market securities. Over time, accounting value and economic value remain reasonably close.

The framework becomes less effective, however, for companies like Berkshire Hathaway, Markel, and increasingly, Fairfax.

When Accounting Value and Economic Value Diverge

The issue is not publicly traded equities. Mark-to-market accounting generally captures their value over time.

The issue is associate holdings, consolidated operating companies, and wholly owned businesses.

Because of accounting rules, the carrying values of these holdings can diverge materially from their economic value. Over long periods, the gap can become substantial.

As a result:

- Reported EPS can understate economic earnings
- BVPS can understate intrinsic value
- ROE can understate economic returns

When this happens, book value becomes a less useful valuation anchor.

That is exactly what happened at Berkshire Hathaway.

Buffett's Public Break with Book Value

For more than 50 years, Warren Buffett taught investors to focus on growth in book value per share as Berkshire Hathaway's primary performance metric.

Then, in Berkshire's 2018 annual report, Buffett changed course:

> "The annual change in Berkshire's book value... is a metric that has lost the relevance it once had."

Buffett explained that Berkshire had evolved. The company increasingly owned operating businesses rather than publicly traded securities.

Public equities were not the problem because they were marked to market. The problem was Berkshire's growing collection of operating businesses, whose accounting values increasingly understated their economic value.

Share repurchases created a second distortion. Buying back stock above book value but below intrinsic value could reduce BVPS while increasing intrinsic value per share.

Buffett's conclusion was straightforward:

> "Accounting numbers are the beginning, not the end, of business valuation."

That framework increasingly applies to Fairfax today.

What Changed at Fairfax?

Three developments accelerated after 2018.

First, Fairfax increasingly shifted capital toward associates, consolidated holdings, and operating businesses.

Second, the quality of the equity portfolio improved dramatically.

Third, (since 2024) management began aggressively repurchasing shares at prices above book value but below intrinsic value.

Together, these developments widened the gap between accounting value and economic value.

Historically, much of Fairfax's hidden value resided within its insurance operations. Today, a growing portion resides within its equity portfolio and operating businesses.

Understanding that shift is critical because accounting results are becoming less representative of Fairfax's underlying economic performance.

The Equity Portfolio Transformation

Much of Fairfax's transformation since 2018 can be traced to the equity portfolio.

Three developments worked together simultaneously.

1. More Associate and Consolidated Holdings

Over the past eight years, Fairfax has shifted a meaningful portion of its equity portfolio away from traditional mark-to-market securities and toward associate and consolidated holdings.

Unlike ordinary public equities, these investments can compound value for years without that value being fully reflected in book value.

As their importance increased, the gap between accounting value and economic value widened.

2. A Dramatic Improvement in Quality

Around 2018, Fairfax appears to have refined its investment framework.

Strong management teams, stronger balance sheets, and durable business economics became increasingly important. Valuation discounts still mattered, but quality moved higher up the priority list.

Investments such as Seaspan (now Poseidon) and Stelco signaled the shift.

At the same time, Fairfax steadily upgraded the portfolio:

- APR Energy and Resolute Forest Products were sold.
- Fairfax Africa was wound down and merged into a stronger entity.
- Blackberry exposure was significantly reduced.
- Eurobank was retained and strengthened.
- More recently, Farmers Edge was wound down and Boat Rocker was merged into a stronger entity.

Capital was steadily reallocated away from chronic underperformers toward higher-quality compounders.

The portfolio evolved from being a significant user of capital to becoming a meaningful source of earnings and cash flow.

3. The Portfolio Became Much Larger

The insurance hard market significantly increased Fairfax's earnings and float, allowing much larger amounts of capital to be allocated to equities.

As a result, successful investments began contributing much more meaningfully to intrinsic value growth.

Compounding and Time Are Now Working Together

Fairfax's repositioning began around 2018. As the quality of the portfolio improved, compounding and time began working increasingly in Fairfax's favour.

Early signs emerged in 2021. The results strengthened in 2022 and have continued improving since.

The benefits of owning larger positions in higher-quality businesses are now becoming increasingly visible.

The Optimization Journey

Fairfax has been optimizing its insurance operations since 2011, when Andy Barnard was put in charge. A similar optimization process has been underway within the investment portfolio since roughly 2018.

This is a significant development because, for perhaps the first time in Fairfax's history, both the insurance operations and investment portfolio are performing at a high level simultaneously.

Five forces are now working together:

- Higher quality
- Better performance
- Larger size
- Compounding
- Time

The result is significant value creation that is increasingly not being captured in EPS, ROE, or BVPS.

Measuring Hidden Value: Excess of FV over CV

This leads to two important questions:

- How big is it?
- What is the trend? Is it growing?

The challenge is that hidden value is a broad and complicated topic. Some sources are relatively easy to identify and measure; others are much more nuanced. So, it makes sense to break the analysis into smaller pieces and begin with the easier ones.

Excess of FV over CV

One of the few sources of hidden value that investors can quantify with reasonable precision is Fairfax's disclosure of excess fair value over carrying value (FV over CV) for non-insurance associates and market-traded consolidated holdings.

Examples include:

Associates (typically 20%-50% ownership; significant influence)

- Eurobank
- Poseidon
- EXCO Resources
- Waterous Energy Fund III (Greenfire)

Market-Traded Consolidated Holdings (typically >50% ownership; control)

- Fairfax India
- Thomas Cook India
- Dexterra
- AGT Food & Ingredients

Although the accounting treatment differs, both categories can develop substantial gaps between market value and carrying value over time. As a result, accounting value can materially understate economic value. (See Appendix B for how the accounting works.)

At March 31, 2026:

- Fair value was ~$12.8 billion
- Carrying value was ~$8.9 billion
- Excess FV over CV was ~$3.9 billion

That equates to roughly $176 per diluted Fairfax share, pre-tax.

More important than the size is the trend:

- Negative $663 million at December 31, 2020
- Positive $3.9 billion at March 31, 2026

That represents approximately $4.6 billion of value creation over 5.25 years—about $873 million annually—that is not captured in EPS, ROE, or BVPS.

Fairfax itself highlights the importance of this metric and reviews it regularly as an indicator of investment performance.

> "Excess (deficiency) of fair value over carrying value – These pre-tax amounts, while not included in the calculation of book value per basic share, are regularly reviewed by management as an indicator of investment performance for the company's non-insurance associates and market traded consolidated non-insurance subsidiaries that are considered to be portfolio investments…"

And this is only one source of hidden value.

Fairfax: Non-insurance Associate and Market Traded Consolidated Companies				Per Share
(m)	FV	CV	Excess	
2020	$4,321	$4,984	-$663	
2021	$6,068	$5,721	$346	
2022	$6,737	$6,427	$310	
2023	$8,355	$7,349	$1,006	
2024	$9,174	$7,693	$1,481	
2025	$11,649	$8,509	$3,140	
Q1-2026	$12,821	$8,899	$3,922	$176
Change	**$8,500**	**$3,915**		
	197%	**79%**		
5.25 Year Change		**Total**	**$4,584**	
		Per Year	**$873**	

Eurobank: A Case Study in Hidden Value

Eurobank is an especially important investment for three reasons:

- It is Fairfax's largest holding - by far.
- It is Fairfax's best-ever performing equity investment.
- It has become an enormous — and growing — source of hidden value.

It provides a clear example of how economic value can compound rapidly while accounting value lags behind.

Fairfax first invested in Eurobank in 2014. Beginning in 2020, the investment was classified as an associate after regulatory restrictions on Fairfax's voting rights were removed.

At the end of 2019:

- Greece was still recovering from a severe depression
- Eurobank was still cleaning up its balance sheet (non-performing loans)
- interest rates were near zero
- investor sentiment toward Greek banks remained extremely poor

As a result, Fairfax's carrying value was established at a depressed valuation (€0.92/share or ~$1.16 billion). That low starting point proved critically important.

Over the following six years fundamentals dramatically improved:

- Greece elected a pro-business government
- The economy strengthened materially
- Eurobank repaired its balance sheet
- Interest rates increased
- The acquisition of Hellenic Bank strengthened its competitive position

At the same time, the share price increased sharply as:

- Earnings grew
- Valuation multiple expanded
- Compounding and time began to work its magic

Eurobank's share price rose from €0.92 at year-end 2019 to €3.97 on May 27, 2026.

Because Fairfax uses equity accounting, much of the enormous value creation did not flow through reported EPS or BVPS.

Instead, it accumulated quietly as hidden value.

At May 27, 2026:

- Estimated market value: ~$5.4 billion
- Estimated carrying value: ~$2.9 billion
- Hidden value: ~$2.5 billion, or $112 per diluted Fairfax share, pre-tax

When Fairfax eventually sells its stake in Eurobank—or its ownership falls below 20%—it will recognize a massive investment gain based on the difference between market value and carrying value.

And Eurobank is only one investment.

Eurobank: Change in Value - 20189to YTD 2026

	Share Price	Fair Value	Carrying Value	Excess FV over CV
US$ m	Euro	$	$	CV
2019	€ 0.913	$1,164	$1,164	
2020	€ 0.579	$800	$1,166	-$366
2021	€ 0.891	$1,210	$1,299	-$88
2022	€ 1.055	$1,345	$1,508	-$163
2023	€ 1.610	$2,252	$2,100	$152
2024	€ 2.230	$2,924	$2,375	$549
2025	€ 3.425	$4,703	$2,728	$1,975
Mar 31, 2026	€ 3.408	$4,579	$2,790	$1,789
May 27, 2026	€ 3.970	$5,400	$2,900	$2,500
Change	**€ 3.057**	**$4,236**	**$1,736**	**$2,866**
	528%	**530%**	**149%**	

Eurobank: Drivers of Change in CV

	Share of Profit of Associates	Dividends	Exchange Rates Euro/US$
US$ m			
2019	$0	$0	1.12
2020	-$12	$0	1.23
2021	$162	$0	1.14
2022	$263	$0	1.07
2023	$438	$0	1.10
2024	$515	$126	1.03
2025	$474	$207	1.17
Q1-2026	$129	$0	1.17
Total	**$1,969**	**$333**	
SofP - Div	**$1,636**		

Hidden Value Eventually Gets Monetized

Berkshire Hathaway rarely sells businesses. Fairfax is different.

At Fairfax, monetizing investments is an important part of the business model. Capital is recycled from mature or fully valued holdings into new opportunities capable of generating above-average returns.

Why?

Two reasons:

- To earn attractive long-term returns
- To continually improve the quality of the company and investment portfolio

Over time, Fairfax has surfaced hidden value through:

- Asset sales
- IPOs
- Spinouts
- Partial sales
- Revaluations

Recent large examples include pet insurance, Digit, Resolute Forest Products, Stelco, Peak Achievement and Poseidon. There are many more small examples.

Poseidon: A Recent Example

The March 2026 Poseidon transaction was particularly instructive (Fairfax sold ~50%). Poseidon is Fairfax's third-largest equity investment.

- Sale price: $28.30/share
- Carrying value: $15.50/share
- Market value: $20.00/share

The sale price was almost double the carrying value.

The sale valued Fairfax's full stake at approximately:

- $1.7 billion above carrying value
- $1.1 billion above prior market value

The sale will generate a pre-tax investment gain in Q2 of ~$837 million, or ~$38 per diluted share.

Just as important, it also establishes a more accurate valuation reference point for Fairfax's remaining ownership interest.

From Fairfax's Q1-2026 Interim Report:

> "On March 10, 2026 the company entered into agreements to sell approximately half of its equity interest in Poseidon for cash consideration of $28.30 per share for aggregate proceeds of approximately $1.9 billion. Following the sales, the company will retain an equity ownership of approximately 22.2% of Poseidon. The pre-tax gain on closing is approximately $837."

	Fairfax: Big Picture Impact of Partial Sale of Poseidon/Altas/Seaspan			
	March 10, 2026	Shares (m)	Per Share	Total $ (m)
A	Carrying Value at Dec 31, 2025	132	$15.50	$2,046
B	Old Market Value - Dec 31, 2025		$20.00	$2,640
C	New Market Value - March 10, 2026		$28.30	$3,736
C - A	**Increase in New MV over CV**			**$1,690**
C - B	**Increase in New MV over Old MV**			**$1,096**

The transaction reinforced three key points:

- Hidden value exists - it is not some abstract concept.
- It is large and growing.
- Book value materially understates economic value.

Importantly, this was not a one-off event.

Fairfax has been monetizing hidden value for decades. One mistake many investors continue to make is treating Fairfax's investment gains as unusual or non-recurring. They are neither. Monetizing investments is a normal part of Fairfax's business model.

Looking Beyond Quarterly Volatility

Will gains be lumpy from quarter to quarter or year to year? Of course.

But over two-, three-, or five-year periods, the pattern becomes easier to understand.

Fairfax's investment gains should not be viewed as random windfalls. They are better understood as the periodic monetization of value that has been building for years.

That distinction matters.

What Does Hidden Value Mean for Investors?

Hidden value changes how Fairfax should be valued.

One approach is to restate historical performance by adjusting reported results to better reflect economic value creation. That would produce higher past results - economic EPS, economic BVPS, and economic ROE.

The second approach — and the one I prefer — is to incorporate hidden value into future earnings power.

Hidden Value is Deferred Earnings

Over time, Fairfax will continue monetizing portions of its associates, consolidated holdings, and investment portfolio. As these investments are sold or revalued, hidden value will increasingly flow through the financial statements as realized investment gains.

In this sense, hidden value can be viewed as deferred earnings—a future earnings stream that has already been created but has not yet been fully recognized by accounting rules.

Fairfax already benefits from multiple earnings engines:

- Underwriting profit
- Interest and dividend income
- Share of profit of associates
- Consolidated non-insurance earnings
- Mark-to-market investment gains

Increasingly, there is another:

- Large asset monetizations

As Fairfax's equity investments continue to compound, this source of earnings should become more important.

Stock Buybacks Are a Tell

Management's willingness to aggressively repurchase shares at prices well above book value provides an important clue.

The people with the best understanding of Fairfax's hidden value clearly believe intrinsic value is materially higher than book value.

Fairfax's Current Valuation

An Unusual Opportunity

Fairfax has been one of the best-performing P/C insurers of the past five years, yet it continues to trade at the lowest valuation in its peer group.

Past performance

When evaluating insurance companies, I prefer to use BVPS Total Return (growth in book value per share plus dividends paid). It is simple to calculate, captures both US GAAP and Canadian IFRS reporting differences, and serves as a useful proxy for long-term ROE. It also allows for more meaningful comparisons across insurers, which often use different methods for calculating reported ROE.

Using this measure, Fairfax has generated a five-year CAGR of 22.5%, ranking among the best performers in the industry.

Fairfax - BVPS Total Return	
(use to avoid techincal debate over ROE)	
December 31, 2020	$478
December 31, 2025	$1,260
Total Change in BVPS	**$781**
Total Dividends Paid	$60
Total Return	**$841**
	176%
5-Year CAGR	**22.5%**

Current Valuation

Today, Fairfax trades at:

- 1.25x book value
- 8.5x earnings (using average EPS of $183 over the past three years)

By both measures, Fairfax trades at the lowest valuation of its major P/C insurance peers.

Investors can purchase one of the best-performing P/C insurers of the past five years at the lowest valuation in the group.

Hidden Value

The valuation case becomes even more compelling when hidden value is considered.

The metrics above are based entirely on reported accounting results and do not reflect the substantial amount of hidden value created over the past five years.

Fairfax's reported results alone suggest the shares are attractively valued. When the company's growing hidden value is also considered, the valuation appears even more compelling.

Because hidden value represents deferred earnings, it should translate into higher future earnings and higher future ROE. Over time, that should support a higher valuation multiple. Yet Fairfax continues to trade at the lowest valuation in its peer group.
The Fairfax story is better than it appears from the accounting numbers alone.

	Fairfax - Current Valuation		
A	Share Price - May 29, 2026	$1,559	
B	Diluted EPS - Avg past 3 yrs	$183	
C	Book Value - Mar 31, 2026	$1,250	
	Dividend per share & yield	$15	1.2%
A / C	P/BV	1.25	
	BVPS Total Return - 5-Yr CAGR	22.5%	
A / B	P/E	8.5	

Conclusion

Book value still matters at Fairfax.

But far less than many investors realize.

Over the past five years, Fairfax has evolved into the type of company where accounting value increasingly understates economic value.

The company now owns:

- More associates and consolidated holdings
- Higher-quality businesses
- A much larger equity portfolio

At the same time, compounding and time are beginning to amplify those advantages.

For traditional P/C insurers, accounting value and economic value are usually reasonably close. At Fairfax, the gap is large and growing.

Excess FV over CV provides investors with one useful window into that reality, but it captures only part of the story. Additional hidden value exists within wholly owned businesses, private holdings, and parts of the insurance operations that are not reflected in book value.

The central idea is straightforward: Accounting numbers are the starting point, not the destination.

For Fairfax investors, the key question is no longer simply how fast book value per share is growing.

The more important question is how much intrinsic value Fairfax is creating that accounting rules do not yet capture.

Appendix A: Framework for Understanding Hidden Value – The Forest and the Stream

Investors often struggle to understand hidden value because it does not fit neatly into traditional accounting measures.

One way to think about it is through the lens of stock and flow.

The stock is represented by a forest.
The flow is represented by a stream.

Together, they provide a useful framework for understanding how hidden value is created, accumulated, and ultimately monetized.

The Forest: Hidden Value on the Balance Sheet

Think of Fairfax's hidden value as a growing forest.

Each tree represents a source of value that is not fully reflected in reported book value:

- Associates whose fair value exceeds carrying value
- Market-traded consolidated holdings whose economic value exceeds book value
- Wholly owned private businesses

As these businesses grow and compound, the forest becomes larger and more valuable. The result is a widening gap between Fairfax's accounting value and its economic value.

The forest is a balance sheet concept. It represents the stock of accumulated hidden value at a point in time. Importantly, the forest has been growing rapidly in recent years.

The Stream: Hidden Value Flowing Through the Income Statement

Now imagine a stream flowing out of the forest.

The stream represents hidden value that Fairfax monetizes through:

- Asset sales
- IPOs
- Revaluations
- Other capital allocation decisions

When Fairfax monetizes an asset such as pet insurance, Resolute Forest Products, Digit, Stelco or a part of Poseidon, value that was previously embedded in the forest becomes visible in reported earnings and cash flows.

The stream is an income statement concept. It represents the flow of value being realized over time.

Why Both Matter

Many investors focus on the stream because it is visible in reported earnings.

But the stream is only part of the story. The more important question is whether the forest is growing. At Fairfax, it has been growing rapidly since 2018.

As the forest expands, the stream naturally grows with it. A larger collection of valuable businesses creates more opportunities to surface value through asset sales, IPOs, and other transactions.

What This Means for Investors

The hidden value story at Fairfax is about both a growing forest and a growing stream.

The forest represents the stock of hidden value accumulating on the balance sheet. The stream represents the flow of hidden value being realized through the income statement. Today, both are growing rapidly.

Fairfax is accumulating value faster than it is realizing it—and realizing more value than ever before.

Appendix B: Excess of Fair Value over Carrying Value – How the Accounting Works

Associate Holdings

Associate investments are generally accounted for using the equity method under IFRS (IAS 28). This differs significantly from ordinary public equity holdings.

At acquisition — or when ownership rises above roughly 20% — the investment is initially recorded at cost.

After that, carrying value changes based on:

- Share of earnings → increases carrying value
- Dividends received → reduce carrying value
- OCI adjustments → foreign exchange, pensions, and other items

- Impairments → permanent write-downs

Importantly, associates are not marked to market each quarter.

As a result, carrying value largely reflects:

- Original cost
- Plus retained earnings over time
- Minus dividends

This differs sharply from ordinary public equities, where carrying value is regularly adjusted to current market prices.

For public equities:
- Fair value ≈ carrying value

For associates:
- Fair value can become materially higher than carrying value

Especially when:

- Earnings quality improves
- Valuation multiples expand
- Businesses compound over long periods

This is one reason companies like Fairfax and Berkshire Hathaway can accumulate substantial hidden value over time.

Market-Traded Consolidated Holdings

Market-traded consolidated holdings create similar economic dynamics, although the accounting treatment differs.

When Fairfax controls a business, it consolidates 100% of the subsidiary's assets, liabilities, revenue, and expenses onto its financial statements.

Fairfax calculates:

- Fair value using its ownership share of the subsidiary's market capitalization
- Carrying value using its ownership share of the subsidiary's consolidated equity

Like associates, these holdings are not revalued each quarter based on market prices.

As a result, market value can diverge materially from accounting value over time.

Although the accounting treatments differ, the conclusion is the same: both associate holdings and market-traded consolidated holdings can accumulate substantial hidden value because market value can grow much faster than the carrying value reflected in Fairfax's financial statements.

Appendix C: Buffett's Evolution on Book Value

For more than 50 years, Warren Buffett was book value's biggest champion. He taught generations of shareholders to use book value as the primary tool to:

- Roughly value Berkshire Hathaway
- Evaluate management performance through growth in book value per share (BVPS)

To understand how important book value was to Buffett, investors only had to read the opening paragraph of Berkshire's annual letters. For decades, he repeated essentially the same message. From Berkshire's 2017 annual report:

> "Berkshire's gain in net worth during 2017 was $65.3 billion, which increased the per-share book value of both our Class A and Class B stock by 23%. Over the last 53 years... per-share book value has grown from $19 to $211,750, a rate of 19.1% compounded annually."

Then, in early 2019, Buffett abruptly changed course.

In Berkshire Hathaway's 2018 annual report, Buffett declared that book value had lost much of its usefulness as a metric for Berkshire shareholders. Given how central BVPS had been to Berkshire's story for more than half a century, this was a seismic shift.

Buffett stated it directly:

> "The annual change in Berkshire's book value... is a metric that has lost the relevance it once had."

He then explained why.

1. Berkshire Hathaway Had Changed

Buffett's first point was straightforward: Berkshire itself had evolved.

When Buffett acquired Berkshire in 1965, it was a struggling textile company. The 1967 purchase of National Indemnity introduced the P/C insurance model and, more importantly, insurance float. Initially, much of that float was invested in publicly traded equities.

Public equities were not the problem. Because they are marked to market, their fair value is generally reflected in book value.

The issue was Berkshire's growing collection of wholly owned operating businesses. As Berkshire increasingly redeployed capital into acquiring entire companies, a larger share of its economic value became tied to assets carried on the balance sheet at accounting values far below intrinsic value.

Unlike publicly traded holdings, these businesses were not periodically revalued.

As Buffett explained:

> "Berkshire has gradually morphed from a company whose assets are concentrated in marketable stocks into one whose major value resides in operating businesses."

And:

> "Accounting rules require our collection of operating companies to be included in book value at an amount far below their current value."

The issue was compounded by Buffett's long-standing practice of rarely selling wholly owned businesses. Much of the appreciation would never be surfaced through sale transactions.

Over time, the gap between Berkshire's accounting value and intrinsic value widened materially. Eventually, Buffett concluded that book value no longer adequately captured Berkshire's economic reality.

2. Share Buybacks Distorted BVPS

The second issue was Berkshire's growing use of share repurchases.

Buffett made clear that Berkshire would repurchase shares only when they traded below intrinsic value. Economically, those buybacks benefited long-term shareholders.

But there was an accounting complication.

If Berkshire repurchased shares above book value — say at 1.2x book or higher — BVPS would decline even as intrinsic value per share increased. Over time, large buybacks executed above book value would make BVPS increasingly disconnected from economic reality.

Buffett summarized the issue succinctly:

> "Each transaction makes per-share intrinsic value go up, while per-share book value goes down."

That is a difficult concept for many investors to fully grasp.

Buffett's Solution

So, what did Buffett do?

He effectively abandoned book value and BVPS as Berkshire's primary performance metrics. Instead, he argued that Berkshire's stock price would become the best long-term measure of business performance:

> "Over time, however, Berkshire's stock price will provide the best measure of business performance."

That was a remarkable statement from someone who had spent decades warning investors about the irrationality and volatility of markets.

Book value still mattered. Buffett simply believed it no longer captured Berkshire's economic reality well enough to remain the company's primary scorecard.

For long-time Berkshire shareholders, it was like getting hit with a bucket of ice water.

Accounting Numbers Are the Beginning — Not the End

Buffett had actually laid the intellectual foundation for this shift decades earlier:

> "Managers and investors alike must understand that accounting numbers are the beginning, not the end, of business valuation." — *Warren Buffett, Berkshire Hathaway 1982AR*

Successful investing is centred on properly estimating intrinsic value. Reported accounting measures such as EPS and BVPS are useful starting points, but for companies like Berkshire Hathaway, Markel, and Fairfax, they can materially understate economic performance.

Investors therefore need to supplement accounting measures with additional analysis, particularly when:

- A growing portion of value resides in associates and consolidated operating companies
- Carrying values materially understate economic value
- Share buybacks are executed above book value but below intrinsic value
- Long-duration capital allocation decisions create value that accounting statements only partially capture

This is increasingly the framework investors need when evaluating Fairfax today.

Buffett's Full 2018 Commentary on Book Value

Given its importance, Buffett's full explanation from Berkshire Hathaway's 2018 annual report is reproduced below:

"Long-time readers of our annual reports will have spotted the different way in which I opened this letter. For nearly three decades, the initial paragraph featured the percentage change in Berkshire's per-share book value. It's now time to abandon that practice.

The fact is that the annual change in Berkshire's book value – which makes its farewell appearance on page 2 – is a metric that has lost the relevance it once had. Three circumstances have made that so.

First, Berkshire has gradually morphed from a company whose assets are concentrated in marketable stocks into one whose major value resides in operating businesses.

Second, while our equity holdings are valued at market prices, accounting rules require our collection of operating companies to be included in book value at an amount far below their current value.

Third, it is likely that – over time – Berkshire will be a significant repurchaser of its shares at prices above book value but below intrinsic value. Each transaction makes per-share intrinsic value go up, while per-share book value goes down.

That combination causes the book-value scorecard to become increasingly out of touch with economic reality.

In future tabulations of our financial results, we expect to focus on Berkshire's market price... Over time, however, Berkshire's stock price will provide the best measure of business performance."

Intrinsic Value and Book Value - From the Berkshire Hathaway Owner's Manual

Intrinsic value and book value are very different animals. Below, Warren Buffett explains why.

"We report our progress in terms of book value because in our case (though not, by any means, in all cases) it is a conservative but reasonably adequate proxy for growth in intrinsic business value - the measurement that really counts. Book value's virtue as a score-keeping measure is that it is easy to calculate and doesn't involve the subjective (but important) judgments employed in calculation of intrinsic business value.

"It is important to understand, however, that the two terms - book value and intrinsic business value - have very different meanings. **Book value is an accounting concept, recording the accumulated financial input from both contributed capital and retained earnings. Intrinsic business value is an economic concept, estimating future cash output discounted to present value. Book value tells you what has been put in; intrinsic business value estimates what can be taken out.**"

Warren Buffett - Berkshire Hathaway 1983AR

The excerpt below is from Berkshire Hathaway's Owner's Manual – 1999. This was the version that was on Berkshire Hathaway's web site in August of 2024.

Buffett starts with a discussion of intrinsic value ('all-important'). He then moves on to a discussion of book value ('of limited use'). To help readers/investors understand the difference between the two, Buffett use the example of a college education.

INTRINSIC VALUE

Now let's focus on two terms that I mentioned earlier and that you will encounter in future annual reports.

Let's start with intrinsic value, an all-important concept that offers the only logical approach to evaluating the relative attractiveness of investments and businesses. Intrinsic value can be defined simply: It is the discounted value of the cash that can be taken out of a business during its remaining life.

The calculation of intrinsic value, though, is not so simple. As our definition suggests, intrinsic value is an estimate rather than a precise figure, and it is additionally an estimate that must be changed if interest rates move or forecasts of future cash flows are revised. Two people looking at the same set of facts, moreover - and this would apply even to Charlie and me - will almost inevitably come up with at least slightly different intrinsic value figures. That is one reason we never give you our estimates of intrinsic value. What our annual reports do supply, though, are the facts that we ourselves use to calculate this value.

Meanwhile, we regularly report our per-share book value, an easily calculable number, though one of limited use. The limitations do not arise from our holdings of marketable securities, which are carried on our books at their current prices. Rather the inadequacies of book value have to do with the companies we control, whose values as stated on our books may be far different from their intrinsic values.

The disparity can go in either direction. For example, in 1964 we could state with certitude that Berkshire's per-share book value was $19.46. However, that figure considerably overstated the company's intrinsic value, since all of the company's resources were tied up in a sub-profitable textile business. Our textile assets had neither going-concern nor liquidation values equal to their carrying values. Today, however, Berkshire's situation is reversed: Now, our book value *far* understates Berkshire's intrinsic value, a point true because many of the businesses we control are worth much more than their carrying value.

Inadequate though they are in telling the story, we give you Berkshire's book-value figures because they today serve as a rough, albeit significantly understated, tracking measure for Berkshire's intrinsic value. In other words, the percentage change in book value in any given year is likely to be reasonably close to that year's change in intrinsic value.

You can gain some insight into the differences between book value and intrinsic value by looking at one form of investment, a college education. Think of the education's cost as its "book value." If this cost is to be accurate, it should include the earnings that were foregone by the student because he chose college rather than a job.

For this exercise, we will ignore the important non-economic benefits of an education and focus strictly on its economic value. First, we must estimate the earnings that the graduate will receive over his lifetime and subtract from that figure an estimate of what he would have earned had he lacked his education. That gives us an excess earnings figure, which must then be discounted, at an appropriate interest rate, back to graduation day. The dollar result equals the intrinsic economic value of the education.

Some graduates will find that the book value of their education exceeds its intrinsic value, which means that whoever paid for the education didn't get his money's worth. In other cases, the intrinsic value of an education will far exceed its book value, a result that proves capital was wisely deployed. In all cases, what is clear is that book value is meaningless as an indicator of intrinsic value.

Berkshire Hathaway Owner's Manual – 1999 (posted on Berkshire Hathaway's web site on August 2024)

Chapter 5: Capital Allocation

Introduction

Capital allocation is the most important responsibility of a management team. Why? Capital allocation decisions are what drive the long-term performance of a company and important metrics like reported earnings, growth in book value and return on equity. In turn, these metrics drive the multiple given to the stock by Mr. Market and, finally, the share price and investment return for shareholders.

Capital allocation is especially important for P/C insurance companies. And that is because of something called float – which provides low cost (sometimes free) leverage.

When done well, capital allocation does two important things:

1. Delivers a solid return.
2. Improves the quality of the company.

Therefore, the fundamental task of an investor is to determine if management, over time, is making intelligent decisions regarding capital allocation.

What is capital allocation?

Capital allocation is the process of determining how capital is raised, managed and disbursed by a company. Capital allocation decisions often play out with a lag, sometimes years in length. Recognizing this, an investor needs to take a multi-year approach with their analysis.

In this chapter we will get into the weeds of capital allocation at Fairfax:

- What are their capabilities?
- What have they actually done?
- What has been the impact on reported results?
- How do they look positioned for the future?

An Overview of Capital Allocation at Fairfax – Is the Management Team Best-In-Class?

Updated April 3, 2024

In this post we will do an overview of capital allocation at Fairfax. We will discuss the following topics:

- What are the sources of capital for Fairfax?
- In general, what are the basic capital allocation options available to management?
- What has Fairfax done?
- What did we learn?

What are the sources of capital for Fairfax?

Fairfax has three sources of capital: equity (common shareholder's equity + preferred stock), debt (held at the holding company) and float.

- At $35.1 billion, float is by far the largest source of capital. Because Fairfax earns an underwriting profit, float has a cost of less than zero (over the past 10 years Fairfax has averaged a combined ratio of 95.5%).
- At $23.0 billion, shareholders equity is the second largest source of capital.
- At $6.9 billion, debt is the third largest source of capital. It has an average cost of about 5%.

Fairfax has total capital of about $65 billion working for shareholders, or about $2,825/share. This capital has been obtained at a very low average cost.

Fairfax: Sources of Capital (very rough calculation)		
	$bn	
Sharholders Equity	$23.0	Dec 31, 2023
Hold Co Debt (liability)	$6.9	Dec 31, 2023
Float (liability)	$35.1	Dec 31, 2023
Total Capital	**$65.0**	
Shares Outstanding (mn)	23.0	Dec 31, 2023
Capital per Fairfax Share	$2,825	

How does Fairfax do capital allocation?

Internal capabilities*:* Capital allocation at Fairfax is managed by the senior leadership team, led by CEO Prem Watsa.

- Insurance: Since 2011, the insurance business has been led by Andy Barnard. In early 2023, Brian Young was promoted and now shares oversight responsibilities with Andy Barnard over all of Fairfax's insurance and reinsurance operations. Brian is also still CEO of Odyssey.

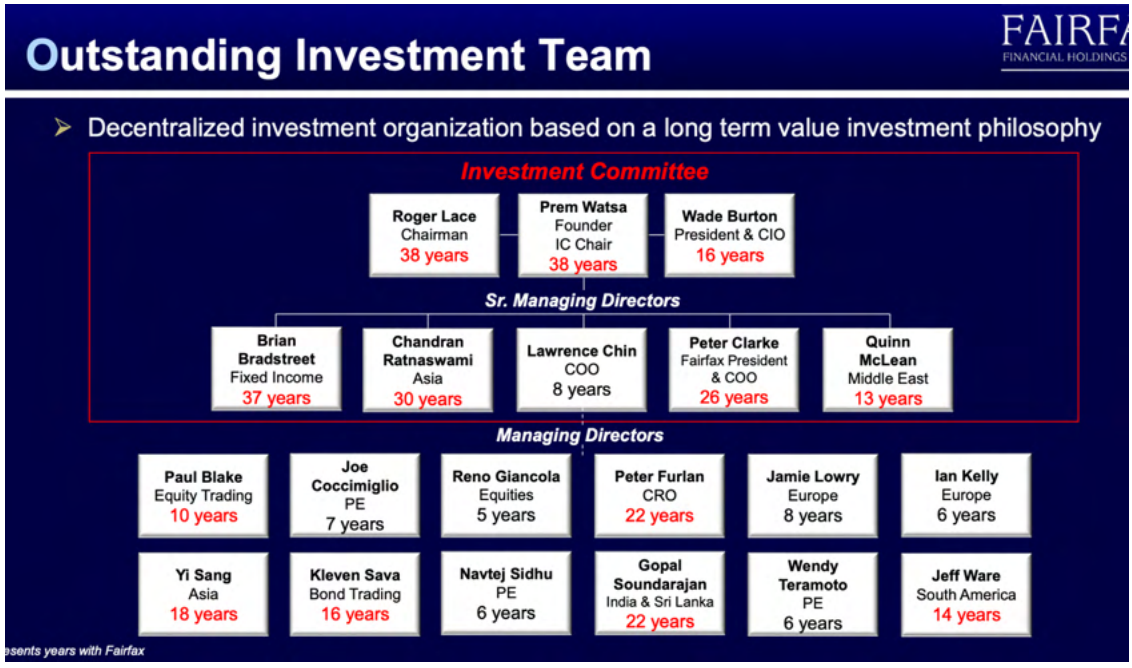
- Investments: The investment business is managed by the team at Hamblin Watsa, which is led by Wade Burton who joined Fairfax in 2009 from fund manager Cundill Investments, and Lawrence Chin, who joined from Cundill in 2016.
    - The fixed income team is led by Brian Bradstreet, who has been with Fairfax from the beginning.
    - In India, Fairfax has Fairbridge, a boots-on-the-ground investment team.

Fairfax also leverages the knowledge of the many CEO's who manage their vast collection of equity holdings across the globe.

> "Since 1985, investments have been centrally managed for all of the Fairfax group companies by Hamblin Watsa Investment Counsel Ltd. (www.hwic.ca), a wholly-owned subsidiary of Fairfax. Hamblin Watsa emphasizes a conservative value investment philosophy, seeking to invest assets on a total return basis, which includes realized and unrealized gains over the long-term." *Fairfax web site*

Fairfax has a large internal team with expertise across many different asset classes and geographies. They are a long-tenured group with experience managing through many different market cycles. They are also a battle tested team. They have established a strong long-term track record of success.

Below is a slide from the AGM (April 2024) that summarizes Fairfax's internal investment team.



External capabilities: Fairfax has been actively cultivating relationships with a large network of individuals/companies in the investment world for decades. The company has established partnerships and expertise across many different asset classes (real estate, private equity, commodities) and geographies (India, Greece, Africa, the Middle East). These external partnerships have been an important source of ideas and diversification while also delivering solid returns to

Fairfax over the years. This important external capability allows Fairfax to leverage the knowledge and skills of a much larger group of people and organizations.

Summary: Over decades, Fairfax has built out a large team and network of highly skilled internal and external capital allocators. **In a world where active management is back, this has become a significant competitive advantage. Fairfax is well positioned at exactly the right time.**

In general, what are the basic capital allocation options available to management?

- Reinvest in the business:
    - Grow organically: support the slow and steady growth of existing operations.
    - Acquisitions/mergers - higher risk, but can be transformative.
- Asset sales: lower risk, opportunity to take advantage of Mr. Market (sell high).
- Pay down debt: the most predictable option, as the cost of repaid debt is known.
- Pay dividends: although tax-inefficient, usually indicates a financially healthy, shareholder-friendly company.
- Share buybacks: impactful, if purchased below intrinsic value, by improving per-share financial metrics like earnings per share and book value per share.

What has Fairfax done?

The management team at Fairfax has been extremely active on the capital allocation front. Every year they typically make from five to ten meaningful decisions. So much has been happening on the capital allocation front in recent years it can be hard for shareholders to keep up - especially understanding the impact on future business results. Below we are going to take a quick look at 16 of Fairfax's bigger decisions made in recent years to see what we can learn.

Reinvest in the business:

1.) 2019-2023, hard market in insurance. Net premiums written have increased a total of 73% over the past four years from $13.3 billion in 2019 to $22.9 billion in 2023, a CAGR of 14.6% per year. In 2023 Fairfax delivered a record underwriting profit of $1.5 billion (the CR was 93.2%).

2.) In 2017, seeded start-up Go Digit in India at a cost of $154 million. Fair value at December 31, 2023 was $2.265 billion. This investment has turned into a home run.

Acquisitions/sales: insurance:

3.) In 2017, purchased Allied World, with the help of minority partners, for $4.9 billion (at 1.3 x book value). The price paid was not an overpay. Net premiums written have increased from $2.37 billion in 2018 to $4.84 billion in 2023, an increase of 104% in 5 years. With the onset of the hard market in late 2019, the timing of this purchase was perfect.

4.) In 2017/2019, sold ICICI Lombard for $1.7 billion: realized a $1 billion pre-tax investment gain. Due to regulations in India, Fairfax had to sell down its position in ICICI Lombard to be able to invest in Digit. This action was a brilliant strategic shift of Fairfax's insurance business in India.

5.) In 2020/2021, sold Riverstone UK (runoff) for $1.3 billion (plus $236 million CVI). When they needed the cash, Fairfax sold their UK run-off business for a much higher price than expected at the time. By shrinking the size of the runoff group, this sale also improved the overall quality of the remaining P/C insurance businesses.

6.) In 2022, sold the pet insurance business to JAB Holding Co. for $1.4 billion. This action resulted in a $1 billion after-tax gain. This sale was a home run for Fairfax as the business was sold for a much higher price than anyone thought possible (most people didn't even know Fairfax owned this business).

7.) In 2023, purchased KIPCO's 46% stake in Gulf Insurance Group for $740 million fair value consideration (payable over 4 years). Fairfax paid a premium to get a control position in a quality business. This was a great strategic purchase that solidifies Fairfax's presence in the MENA region. Fairfax now owns 97.1% of GIG (they added another 7.1% in April 2024).

Acquisitions/sales: investments:

8.) In 2018, made initial investment in Poseidon/Atlas/Seaspan. Fairfax partnered with David Sokol (formerly Buffett's heir apparent at Berkshire). Today Fairfax owns a 43% stake in this company with a market value of $2.046 billion at December 31, 2023. Poseidon will see significant growth in 2024 and 2025 as it takes delivery of a large number of container ships and completes the final leg of its multi-year new-build strategy.

9.) In late 2018, purchased 13.7% of Stelco for $193 million. Fairfax partnered with Alan Kestenbaum. Since 2018, Stelco has paid Fairfax $112 million in dividends. Over the past 3 years, Stelco has repurchased 38% of total shares outstanding. Today, Fairfax now owns 23.6% of Stelco (having invested no new money). Fairfax is exceptionally well positioned for when the next bull market in steel happens.

10.) In 2020/21, initiated a total return swap position giving them exposure to 1.96 million FFH shares at an average cost of $373/share. With Fairfax's stock closing at $1,079/share on March 31, 2024, this investment has already delivered a cumulative gain of about $1.38 billion (before carrying costs). This purchase was very creative and opportunistic and in three short years has become one of Fairfax's best investments ever.

11.) In Dec 2021, reduced the average duration of its $37 billion bond portfolio to 1.2 years (as interest rates bottomed). This action saved the company billions in bond losses – it protected the company's balance sheet. In turn, this has allowed the insurance subs to be aggressive in growing their top line in the hard market.

12.) In Q4 2023, increased the average duration of its $45 billion bond portfolio to about 3 years (as interest rates were peaking). This locks in record interest income, currently running at about $2 billion annually, for the next 3 or 4 years.

The string of decisions executed by the fixed income team over the past 24 months were brilliant and have delivered billions in value to Fairfax's shareholders with much more to come.

13.) In 2020 and 2023, expanded partnership with Kennedy Wilson. Phase 1, in 2020, was the establishment of a $3 billion real estate debt platform. Phase 2, in 2023, was the purchase of $2 billion of PacWest loans yielding a fixed rate to maturity of 10%. Fairfax, through long term partner Kennedy Wilson, took advantage of a temporary market dislocation.

14.) In 2022, sold Resolute Forest Products for $626 million (plus $183 million CVR). Fairfax opportunistically sold at a premium price (at the top of the lumber cycle) what had been one their large chronically underperforming equity holdings. This sale also improved the overall quality of the remaining collection of equity holdings.

15.) In 2023, sold Ambridge Partners for $379 million, delivering a $259 million pre-tax investment gain. This is another example of Fairfax opportunistically selling an asset at a premium valuation.

16.) in 2021, re-purchased 2 million shares at $500/share. This was 7.6% of shares outstanding at the time.

Share buybacks: Effective shares outstanding have decreased 17.1% over the past six years from 27.8 million in 2017 to an estimated 23.0 million in 2023, an average decline of 2.9% per year.

Dividend: In January 2024, Fairfax increased their annual dividend 50% to $15/share. It had been $10/share going all the way back to 2011.

On March 31, 2023, Fairfax's share price closed at $1,079. Fairfax's significant share purchases the past 6 years were done at prices well below intrinsic value - which makes them very beneficial for the company and shareholders. This has been another financial home run.

The list above captures only the largest capital allocation decisions made by Fairfax in recent years. We could easily add another 15 smaller examples of transactions that are also proving to be of a material benefit to Fairfax.

For a comprehensive list of many of Fairfax's capital allocation decisions going back to 2010 (sorted by year) go to the Appendix at the end of this document.

The importance of properly sizing your bet

A lesson from Stan Druckenmiller: position size really matters
- https://moneyweek.com/investments/investment-strategy/605020/stan-druckenmiller-position-size-really-matters

"Sizing is 70% to 80% of the equation. Part of the equation is seeing the investment, part of the investment is seeing myself in a good trading rhythm. **It's not whether you're right or wrong, it's how much you make when you're right and how much you lose when you're wrong**," says Druckenmiller.

Position size matters. A lot. If you don't believe Druckenmiller, just ask Buffett.

Now take a close look at the 16 examples I cited above. What jumps out? The size of the gain from each of the decisions. **My math says 9 of the examples delivered a gain of $1 billion or more to Fairfax and its shareholders over time**. In recent years, Fairfax has been doing two things well:

1. It has been making very good decisions.
2. It has been sizing them exceptionally well.

The benefits to the company and shareholders have been massive - with much more to come.

Fairfax has a current market cap $26.5 billion. A $1 billion gain is a needle mover for the company. A bunch of them stacked one on top of the other? That is called 'escape velocity' for operating earnings. More on this point later in the post.

Asset sales

Asset sales are one part of capital allocation that separates Fairfax from its peers like Berkshire Hathaway and Markel. In selling an asset, Fairfax is essentially trading a stream of future cash flows for a lump sum today.

Why would a company sell an asset?

Sometimes another company - who is willing to pay up - values an asset at a much higher value than you do. The sale of the pet insurance business is a great example of this.

Other times an opportunity might come along that is much better than something you currently own. In this scenario, it makes sense to sell a current holding at a fair valuation to buy something else at a much cheaper valuation.

There also can be important strategic reasons to sell an asset. For instance, if a sale allows the company to better focus on other parts of its business (management time and capital), selling an asset can lead to improved financial results. Selling APR to Atlas is perhaps a good example of this. Selling lower quality assets is also a good way to improve the overall quality of the remaining holdings. Selling Riverstone UK (runoff) and Resolute Forest Products are perhaps two good examples of this.

Put simply, asset sales have been a very important part of Fairfax's capital allocation framework over the years, realizing significant value for the company and its shareholders.

Is it not better to simply 'buy and hold forever'?

Warren Buffett is the GOAT. He also is famous for describing his favourite holding period for a stock/business as 'forever.'

So, what is Fairfax doing selling stocks/businesses? Is that not contradicting what Buffett is saying? Would Fairfax not be better off trying to copy Buffett?

There is an easy answer to our question. And it has to do with size.

When Berkshire Hathaway was a smaller company, Buffett had more good ideas than he had cash. As a result, he was an active manager of his stock/business holdings. He was constantly finding new opportunities (stuff that was cheap) that were much better than what he owned (stuff that was perhaps fairly valued). So, he would sell existing holdings (usually locking in big gains) and recycle the proceeds into much cheaper opportunities. Rinse and repeat.

Today, Berkshire Hathaway is a massive company. As a result, Buffett now has more cash than he has good ideas. As a result, today Buffett generally only has one reason to sell a stock/business: when the economic characteristics of the business (management/fundamentals) no longer meet his expectations. As he repeatedly tells us, he would prefer to hold the stocks/businesses in his portfolio forever. And that makes perfect sense for Berkshire Hathaway today given its size.

Fairfax is still a small company. As a result, it is finding more good ideas than it has cash. As a result, selling stocks/businesses is the optimal approach for Fairfax. And it is consistent with what Buffett did in the past when Berkshire Hathaway was a much smaller company.

And as Fairfax continues to get larger in size it makes sense that we will likely see the company modify its capital allocation framework (around the edges) to reflect this new reality.

At the 2002 Berkshire Hathaway annual meeting, Buffett was asked why he had recently sold Disney and McDonalds. His answer sheds light on how he thinks about selling and how his views have evolved as Berkshire Hathway has grown larger in size. Below is a link to a YouTube video of the exchange.

- https://youtu.be/_xoLSEKkbzY?si=OKWFz0x9srmwfALj

Improving the quality of the two businesses - insurance and investments

Over the past 6 years Fairfax has done a great job of improving the overall quality of both its insurance and equity holdings. Equities were where the heavy lifting needed to be done - and after years of effort Fairfax has made considerable progress dealing with many underperforming holdings (sales, mergers, take-private, run-off). Other holdings, like Eurobank, always well managed, have been greatly assisted by external events (economic pivot in Greece, higher interest rates).

Higher quality businesses are able to deliver larger and more stable earnings. And that is what we are starting to see at Fairfax. Analysts have been slow to recognize this change, which is one reason why their estimates were usually too low in 2023.

Is Fairfax's capital allocation record perfect?

No, of course not. No company is perfect on this front. I see two notable misses:

- Taking until late 2020 to exit the last short position (and not exiting earlier).
- Not finding a way to unload Blackberry during the WallStreetBets mania that caused the share price to spike for a very short period of time in 2021. Fairfax says they were unable to act due to being in a blackout period in place at the time.

Looking at everything they have done over the past five years it is clear that Fairfax has been executing exceptionally well.

> "In this business if you're good, you're right six times out of ten. You're never going to be right nine times out of ten." *Peter Lynch*

Looking at Fairfax's track record over the past five years, I would argue that the company has been right with their capital allocation decisions at a rate much higher than 6 out of 10.

In Druckenmiller parlance, Fairfax has been on a multi-year "hot streak". Or in Buffett parlance, Fairfax has been hitting the ball like Ted Williams for the past couple of seasons.

Has Fairfax simply been lucky?

Did Prem give the team at Fairfax a sip of 'liquid luck' back in 2018? Some luck likely has been involved. But I like this definition of luck:

> "Luck is what happens when preparation meets opportunity." *Roman philosopher Seneca*

What have we learned?

Here are the words I would use to describe Fairfax's approach to capital allocation:

- Flexible - use the full suite of options available.
- Opportunistic - take advantage of dislocations/opportunities as they arise.
- Countercyclical - act contrary to prevailing investment trends.
- Speed - act quickly when necessary.
- Conviction (position sizing) - go big when risk/reward is highly compelling/asymmetrical.
- Creative - be open minded during the process.
- Long term focus – goal is to generate above-market returns. Accepting of volatility.
- Strategic - make the company stronger - both insurance and investments.
- Rational - capital goes to the best (risk adjusted) opportunities.
- Equally capable in executing across both insurance and investment businesses.

Conclusion

Fairfax has a strong management team.

- They have been executing exceptionally well over the past 6 years.
- The company is now delivering record financial results.
- Both businesses - insurance and investments - appear very well positioned.

Fairfax is delivering on the dual core objectives from capital allocation:

1. Deliver good/great returns on capital deployed
2. Improve the quality of each of the businesses (insurance and investments) over time

As a result, I think we can fairly conclude that the management team at Fairfax have demonstrable best-in-class capital allocation skills, and not just within their peer group in P/C insurance.

And with the company producing record operating earnings (and an estimate of around $4 billion per year in net earnings) this best-in-class team is going to get the opportunity to deploy billions into new opportunities – each year moving forward.

Record, sustainable and growing earnings + exceptional capital allocation + compounding + time = exponential growth

The Fairfax contradiction:

Fairfax is trading today at a P/BV of about 1.1 (using my estimate of book value at March 31, 2024). That is a very low valuation - it suggests Fairfax is a poorly run P/C insurer with poor prospects.

If Fairfax is best-in-class at capital allocation, how can it also be poorly run with poor prospects?

The answer is simple - it can't be both at the same time.

If Fairfax is above average at capital allocation, then future earnings growth should be solid. This will lead to an above average ROE. As Mr. Market comes to understand Fairfax better - and that the company is an above average P/C insurer, then we should see multiple expansion.

The 'trifecta' for a stock:

Growing earnings + growing multiple + lower share count = much higher share price.

What is the Total Return Fairfax is Generating on its Investment Portfolio? Past, Present and Future.

November 17, 2025

In this post we explore the returns Fairfax has generated on its investment portfolio. What we learn will help us evaluate the management team and to value the company.

Our analysis breaks down into seven parts:

- Part 1: Introduction
- Part 2: How Fairfax Invests
- Part 3: Methodology for Measuring Returns
- Part 4: Past Performance Review (2017-2024)
- Part 5: Future Estimates (2025-2026)
- Part 6: Normalized Rate of Return
- Part 7: Conclusion

Part 1: Introduction

Fairfax has built an exceptional business model

This is no exaggeration. Over the past 39 years, Fairfax's per share market value (in US$) has grown at a compound annual growth rate (CAGR) of 19.2%. Among roughly 6,000 publicly listed companies since 1985, Fairfax ranks as the 8th best performer – an extraordinary achievement. (Source: Fairfax AGM, April 2025)

Two questions arise:

How has Fairfax delivered such outstanding long-term returns?

How is the company positioned today?

Fairfax tends to be underfollowed by investors. As a result, many struggle to answer either question.

The key to Fairfax's success lies in its two business engines and their impact on earnings:

- Property & Casualty (P/C) Insurance: Generates an underwriting profit, measured by the combined ratio. This is pretty straight forward.
- Investment management: Generates a total return on its portfolio, measured by the rate of return. This is more complex.

This post focuses on Fairfax's total return on its investment portfolio – both in absolute dollars and as a percentage return – starting with historical data and ending with future estimates.

Part 2: How Fairfax Invests

Let's get the big picture.

Portfolio Size: As of December 31, 2024, Fairfax managed an investment portfolio valued at approximately $69 billion.

Investment Allocation:

- Fixed Income: $47 billion (68%)
- Equities (broadly defined): $22 billion (32%)

Fairfax: Value of Investment Portfolio		
December 31, 2024	US$ b	Split
Fixed Income	$47	68%
Equities	$22	32%
Total Investments	**$69**	

How does this compare with peers?

Most P/C insurers heavily favour fixed income, typically allocating about 95% to bonds and 5% elsewhere. Fairfax's 32% allocation to equities is notably different, more akin to a much younger Berkshire Hathaway. How Fairfax invests is unique among peers.

Why a big equity allocation?

Because equities deliver higher long-term returns than bonds - historically proven. With a sizeable equity stake, Fairfax aims to generate better portfolio returns, driving stronger earnings and ultimately a higher stock price to benefit long-term shareholders.

Why don't peers follow suit?

Likely due to their lower tolerance for short-term volatility. Fairfax embraces this volatility for the greater return payoff.

To summarize, Fairfax's unique portfolio mix and large equity exposure should, in theory, lead to superior investment returns compared to typical P/C insurers. Do the numbers back this up?

Part 3: What Methodology Should We Use to Measure Returns?

Before diving into the numbers, we need to clarify our approach by answering three questions:

Economic or Accounting Return?

Most focus on accounting returns—they're simpler and safer. But Warren Buffett advocates for economic return, as it better captures real shareholder value creation over time. We agree and will focus on economic returns here.

What Inputs Will We Use?

We calculate Fairfax's total economic return using five key quarterly-reported inputs:

- **Interest and Dividend Income:** From fixed income and dividend-paying market to market equities.
- **Share of Profit of Associates:** Fairfax's share of pre-tax earnings from stakes in companies it partially owns including Eurobank, Poseidon, EXCO Resources, Fairfax India (their associate holdings).
- **Non-Insurance Consolidated Companies:** Pre-tax earnings from companies Fairfax owns including Recipe, Sleep Country, Peak Achievement, Grivalia Hospitality, TC India, Meadow Foods, AGT Food Ingredients and Dexterra.
- **Net Gains (Losses) on Investments:** Both realized and unrealized gains on stocks and bonds, including insurance-related gains.
- **Annual Change in Excess of Fair Value over Carrying Value:** For non-insurance associate and consolidated holdings. Economic value being created that is not captured in reported earnings.

What Time Frame?

For investors - unlike speculators - a longer-term horizon matters. Warren Buffett recommends five years; we extend that to eight years (2017-2024) plus two future years (2025-2026) for a full decade view. This helps smooth out short-term volatility.

Part 4: Fairfax's Investment Returns, 2017 to 2024

We analyze two four year periods:

2017 to 2020:

Average annual return from investments: $1.91 billion or ~5.0%
This was a challenging period for the company. Key headwinds included:

- Ultra-low interest rates globally depressed fixed income yields and interest income.
- Equity portfolio underperformed, due to short positions and too many struggling holdings. (The last short position was removed in late 2020.)

Despite the significant headwinds, Fairfax was still able to achieve a respectable return of 5.0%. Net gains on investment (at 62%) were the biggest driver.

	Fairfax - Annual Return of Investment Portfolio - 4 Year Average					2017 to 2020	
	November 17, 2025	2017	2018	2019	2020	Avg	Split
1	Interest & dividend income	$559	$784	$880	$769	$748	39%
2	Share of profit of associates	$201	$221	$170	-$113	$120	6%
3	Non-insur consolidated companies	$262	$264	$104	-$139	$122	6%
4	Net investment gains including sales	$2,457	$194	$1,692	$430	$1,193	62%
5	Change in Excess of FV over CV for A+C	$734	-$1,260	$117	-$680	-$272	-14%
	Total Investment Return ($m)	**$6,229**	**$2,220**	**$4,982**	**$2,288**	**$1,911**	
	Total Investment Portfolio - Dec 31 ($b)	**$39.3**	**$38.8**	**$39.0**	**$43.2**	**$38.2**	
	Annual Return (using avg investments)	**18.4%**	**5.7%**	**12.8%**	**5.6%**	**5.0%**	

2021 to 2024:

Average annual return from investments: $4.68 billion or ~8.2%
Tailwinds replaced headwinds:

- Rising interest rates lifted bond yields and interest income, with Fairfax's short-duration fixed income portfolio well positioned.
- Legacy underperforming equity holdings were fixed. New equity investments performed well.

Fairfax achieved a much better return of 8.2%. The company also diversified its investment returns, reducing reliance on investment gains.

	Fairfax - Annual Return of Investment Portfolio - 4 Year Average					2021 to 2024	
	November 17, 2025	2021	2022	2023	2024	Avg	Split
1	Interest & dividend income	$641	$962	$1,896	$2,512	$1,503	32%
2	Share of profit of associates	$402	$1,015	$1,022	$956	$849	18%
3	Non-insur consolidated companies	$71	$61	$46	$212	$98	2%
4	Net investment gains including sales	$3,709	-$514	$2,499	$1,067	$1,690	36%
5	Change in Excess of FV over CV for A+C	$1,008	-$106	$765	$475	$536	11%
	Total Investment Return ($m)	**$5,831**	**$1,417**	**$6,228**	**$5,222**	**$4,675**	
	Total Investment Portfolio - Dec 31 ($b)	**$53.0**	**$55.5**	**$64.8**	**$69.0**	**$57.3**	
	Annual Return (using avg investments)	**12.1%**	**2.6%**	**10.4%**	**7.8%**	**8.2%**	

Part 5: Future Estimates (2025 and 2026)

2025: Estimated total return from investments $7.56 billion or ~10.5%

Reasons: Strong first 9 months, fixed income yields around 5.1%, and high-quality equity portfolio driving outsized gains.

2026: Estimated total return $5.87 billion or ~7.6% (likely conservative)

In 2025, at $2.6 billion, investment gains are elevated; 2026's forecast of $1.4 billion for investment gains is likely understated (and we already know Fairfax will book a gain of about $250 million when the sale of Eurolife's life insurance business closes in Q1, 2026).

Fairfax is generating very good returns on its investment portfolio. The sources of the returns are diversified – and becoming more so.

	Fairfax - Investment Portfolio Returns	2017 to 2020		2021 to 2024		2025E		2026E	
	November 17, 2025	Avg	Split	Avg	Split	$m	Split	$m	Split
1	Interest & dividend income	$748	39%	$1,503	32%	$2,595	34%	$2,665	45%
2	Share of profit of associates	$120	6%	$849	18%	$860	11%	$1,050	18%
3	Non-insur consolidated companies	$122	6%	$98	2%	$360	5%	$450	8%
4	Net investment gains including sales	$1,193	62%	$1,690	36%	$2,625	35%	$1,400	24%
5	Change in Excess of FV over CV for A+C	-$272	-14%	$536	11%	$1,120	15%	$300	5%
	Total Investment Return ($m)	**$1,911**		**$4,675**		**$7,560**		**$5,865**	
	Total Investment Portfolio - Dec 31 ($b)	$38		$57.3		$75.0		$80.0	
	Annual Return (using avg investments)	**5.0%**		**8.2%**		**10.5%**		**7.6%**	

Part 6: A Normalized Rate of Return?

What is a reasonable normalized return to expect going forward?

We estimate Fairfax can sustainably generate about **8% per year** on its investment portfolio (economic return basis).

Why 8%? Because Fairfax's management has demonstrated best-in-class capital allocation over the past five years, positioning them well for future success.

Comparing to peers:

Typical P/C insurance peers earn about 5.5% annually on their portfolios—mostly fixed income. Fairfax's 8% return therefore represents a meaningful advantage of approximately 2.5% per year.

Part 7: Conclusion

Fairfax manages a substantial $69 billion portfolio, uniquely invested with a significant equity component (32%). This strategic difference drives superior returns:

- 5.0% average return during the tough 2017-2020 period
- 8.2% average return more recently (2021-2024)
- Estimated 10.5% return in 2025

A normalized expectation of 8% economic return going forward is reasonable and represents a clear advantage over peers. Fairfax is very well positioned.

This investment performance explains part of Fairfax's 19.2% CAGR in per-share market value over 39 years. The advantage comes from how they invest, coupled with skillful capital allocation and leverage (2.9x investments to common shareholders' equity).

Additional Notes:

Below is the math for two items used in our analysis above.

4.) Net investment gains including sales

We have grouped three items into this bucket. All realized and unrealized gains, from both investments and insurance. And the losses from pushing out the maturities on long term debt.

Net Investment Gains - Including Sales / Revaluations									
	2016	2017	2018	2019	2020	2021	2022	2023	2024
Net gains (losses) on investments	-$1,204	$1,468	$253	$1,716	$313	$3,445	-$1,734	$1,950	$1,067
Gain on sale/deconsol of ins sub	$0	$1,019	$0	$0	$117	$264	$1,220	$549	$0
Loss on repurchase of LT debt	0	-29	-59	-24	0	0	0	0	0
Net investment gains including sales	**-$1,204**	**$2,457**	**$194**	**$1,692**	**$430**	**$3,709**	**-$514**	**$2,499**	**$1,067**

5.) Change in excess of fair value over carrying value for associate and consolidated holdings

Equity holdings classified as 'associates' and 'consolidated' are valued on Fairfax's balance sheet at their carrying value and not their fair value (market value). In recent years, the fair value of this group of holdings has increased at a much faster pace than it's carrying value. This is not surprising – for the past 6 years Fairfax has been slowly and methodically improving the quality of its equity holdings. Past years efforts are now showing up in improved results (and valuations).

At December 31, 2024, the excess of fair value over carrying value for this group of holdings was $1.5 billion. At September 30, 2025, the excess of FV over CV had increased to 2.5 billion, an increaser of $1 billion in nine months (driven primarily by the spike in Eurobank's share price as Greek banks get re-rated closer to European peers).

This is economic value that is being created each year. At some point, Fairfax will harvest/monetize this value and it will show up in reported results (EPS and book value) via the net investment gains income stream.

Excess of Fair Value over Carrying Value for Non-insurance Associates and Consolidated Holdings

	2017	2018	2019*	2020	2021	2022	2023	2024
Fair Value (FV)	$5,219	$4,608	$4,023	$4,486	$6,246	$7,747	$9,617	$11,583
Carrying Value (CV)	$4,058	$4,707	$4,005	$5,148	$5,900	$7,507	$8,611	$10,103
Excess of FV over CV	$1,161	-$99	$18	-$662	$346	$240	$1,006	$1,480
Annual change in excess of FV over CV	**$734**	**-$1,260**	**$117**	**-$680**	**$1,008**	**-$106**	**$766**	**$474**

* For 2019 consolidated holdings are an estimate.

Capital Allocation and the Importance of Position Sizing

September 22, 2025

With this post we are going to get into the weeds of capital allocation. We are going to dig into position size. To see what we can learn about Fairfax.

The post today has been broken into the following 5 parts:

- Part 1: Introduction
- Part 2: Is management any good?
- Part 3: Sizing a capital allocation position/decision
- Part 4: Fairfax - Six examples of capital allocation decisions
- Part 5: Summary

Part 1: Introduction

Capital allocation is the most important responsibility of a management team. Why? Capital allocation decisions are what drive the long-term performance of a company and important metrics like reported earnings, growth in book value and return on equity. In turn, these metrics drive the multiple given to the stock by Mr. Market and, finally, the share price and investment return for shareholders.

Capital allocation is a skill. This is important because it means it can be learned (and mastered) over time.

> Skill defined: "an ability to do an activity or job well, especially because you have practiced it."
>
> *Cambridge Dictionary*

When done well, capital allocation does two important things:

- Delivers a solid return.
- Improves the quality of the company.

Therefore, the fundamental task of an investor is to determine if management, over time, is making intelligent decisions regarding capital allocation.

When it comes to capital allocation, an investor needs to answer two questions:

1.) Is management any good? Yes or no.
2.) If so, how good are they?

- On a scale from one to 10, what number are they?
- Scale: 1 = terrible, 5 = average and 10 = exceptional.

Of the two questions, the first is the easiest to answer. But the answer to the second question is much more important.

The first question can largely be answered by looking at business performance over a 5-year period. For a P/C insurance company, the best way to evaluate business performance is to look at the 5-year change in book value and the stock price. Yes, this is a blunt tool.

To answer the second question, we need to get much more granular with our analysis.

That is what we will do later in this post.

Part 2: Is management any good?

To answer this question, we will look at the 5-year change (2019 to 2024) in BVPS and the share price. To provide context, we will do this for 7 well run P/C insurance companies.

Which company has delivered the highest 5-year CAGR in BVPS?

Fairfax Financial, at 16.9%. It is much higher than the #2 performer, Berkshire Hathaway at 11.6%.

P/C Insurance Peers - 5 Year Change in Book Value Per Share	Year End BVPS						5 Year Change (2019 to 2024)		
	2019	2020	2021	2022	2023	2024	$	%	CAGR
Fairfax (2)	$486	$478	$637	$762	$940	$1,060	$574	118%	16.9%
Berkshire B	$174	$189	$226	$215	$259	$301	$127	73%	11.6%
Intact Fin (C$)	$54.0	$58.8	$82.3	$80.3	$81.7	$92.7	$39	72%	11.4%
Markel	$803	$886	$1,036	$929	$1,096	$1,276	$473	59%	9.7%
WR Berkley (1)	$14.7	$15.8	$16.7	$17.0	$19.4	$22.1	$7.4	50%	8.5%
Chubb	$122	$132	$140	$122	$147	$160	$37	31%	5.6%
Travelers	$102	$116	$120	$93	$109	$123	$21	21%	3.8%

(1) WRB - Adjusted for 3 for 2 share split in Feb 2022 and a second one in July 2024
(2) Fairfax - 2022 restated to reflect adoption of IFRS 17 (required for Canadian insurers).

Which company has delivered the highest 5-year CAGR in total shareholder return?

Fairfax Financial, at 25.2%. It is much higher than the #2 performer, WR Berkley at 15.1%.

Fairfax had the highest growth in BVPS. It makes sense that it also has had the highest increase in total shareholder return.

P/C Insurance Companies - 5-Year Total Shareholder Return	Yesr End Share Price						5-Year Return (2019 to 2024)				
							Share Price	Total Dividends	Total Shareholder Return		
	2019	2020	2021	2022	2023	2024	Change	Paid	$	%	CAGR
Fairfax	$469	$341	$492	$594	$921	$1,390	$921	$55	$976	208%	25.2%
WR Berkley (1)	$30.7	$29.5	$36.6	$48.4	$47.2	$58.5	$27.8	$3.4	$31	102%	15.1%
Intact Fin (C$)	$140	$151	$164	$195	$204	$262	$121	$20	$141	101%	15.0%
Berkshire B	$227	$232	$299	$309	$357	$453	$227	$0	$227	100%	14.8%
Travelers	$137	$140	$156	$187	$190	$241	$104	$19	$123	89%	13.7%
Chubb	$156	$154	$193	$221	$226	$276	$121	$17	$137	88%	13.4%
Markel	$1,143	$1,033	$1,234	$1,317	$1,420	$1,726	$583	$0	$583	51%	8.6%
(1) WRB - Adjusted for 3 for 2 share split in Feb 2022 and a second one in July 2024											

Summary

Of the 7 high quality P/C insurance companies listed above, looking at 5-year change in BVPS and share price, Fairfax has been the top performer over the past 5 years (2019 to 2024). And it is not close.

This suggests Fairfax is quite good at capital allocation. And much better than P/C insurance peers.

But just *how* good is Fairfax?

That is the question we will try an answer next.

Part 3: Sizing a capital allocation position/decision

Capital allocation - the importance of properly sizing a decision/position

Today we are going to look at one very specific part of capital allocation - how to size a position/decision.

We can summarize the capital allocation/investment process as follows:

1. Find a good/great opportunity (in your circle of competence).
2. Exploit/buy it (with a margin of safety).
3. Get the position size right (size/concentrate capital in your best ideas).
4. Exploit/hold it - as long as 'the story' remains intact.

'Get the position size right' is very difficult.

Position size matters so much because of the outsized impact it can have on economic results. Getting position size right is one of the ways a company can outperform peers. Get it wrong? Things can get ugly fast. GOAT can turn to goat.

The really interesting thing, given its importance, is how little this aspect of capital allocation is discussed. Are management teams evaluated (at least in part) based on how well they size their capital allocation decisions? No, they are not.

As a result, position size is one of those topics that pretty much everyone agrees is really important. But it is also something that is not to be discussed in polite company. It is the elephant in the room.

This is especially true for P/C insurance companies. When was the last time you read an analyst report and they discussed management, capital allocation and how good they were are position sizing? Never.

But ignorance is a good thing when it comes to investing. The opposite of ignorance is knowledge. And knowledge is what gives an open minded investor an edge. And having an edge is what leads to outperformance.

What is position size?

Stanley Druckenmiller is one of the GOAT's of investing. I like Druckenmiller's description of position size the best:

> "**Sizing is 70% to 80% of the equation.** Part of the equation is seeing the investment. Part of the investment is seeing myself in a good trading rhythm. **It's not whether you're right or wrong, it's how much you make when you're right and how much you lose when you're wrong**…"
>
> *Stanley Druckenmiller*

Now don't get me wrong… I am not suggesting we all should become 'traders' like Druckenmiller.

I love this quote so much because it provides an easy to understand way to think about position size. It is simple and concise:

- Position size is really important - if you want to earn above average returns.
- How often you are right or wrong is not what matters (for returns).
- How much you make when you are right is what really matters. **This gets to the critical importance of properly sizing your capital allocation decisions/positions around your best ideas.**

Of course, Buffett is the master a sizing his capital allocation decisions. All of the investing greats were very good at properly sizing their positions. **It was a skill they all learned and honed over time.**

Fairfax – Capital Allocation and Position Sizing

September 22, 2025

Part 4: Fairfax - Six examples of capital allocation decisions

Ok. Let's pivot from theory to the real world. Let's look at an actual company.

Fairfax Financial

How good is the management team at Fairfax at sizing their capital allocation decisions?

To help us answer this question we will look at six of Fairfax's capital allocation decisions from the past 5 years:

1. P/C insurance - Aggressively grow P/C insurance business in hard market.
2. Fixed Income - Profit from greatest bond bull market in history / Avoid carnage of greatest bond bear market in history.
3. Share buybacks - Aggressively buy back shares when they are trading at their cheapest valuation in history.
4. Fairfax total return swaps - Get creative to exploit a wonderful opportunity.
5. Eurobank - Exercising patience and letting a large legacy holding run.
6. Asset sales - Capitalizing on volatility / Exploiting Mr. Market.

1.) P/C insurance - Aggressively grow P/C insurance business in hard market.

A hard market is the best of times for a P/C insurance company. Prices are high. And terms and conditions are favourable. Because of this one-two punch, business written in a hard market tends to be very profitable.

But hard markets are created by fear. Well run P/C insurance companies are able to exploit this fear and significantly grow their business in a hard market.

Fairfax's top priority from a capital allocation perspective over the past 5 years has been to capitalize on the hard market in P/C insurance.

Net premiums written at Fairfax have increased from $13.3 billion in 2019 to $25.3 billion in 2024, an increase of $12 billion or 91%. The 5-year CAGR has been 13.7%.

Fairfax has been able to almost double the size of its P/C insurance business over the past 5 years (from a total $ perspective). That is a significant amount of organic (and highly profitable) growth when market conditions were at their best. Fairfax, and the P/C insurance team, has sized this capital allocation decision exceptionally well.

Fairfax - NPW		
Change From 2019 to 2024		
Net Premiums Written		
31-Dec	$ b	%
2019	$13.3	n/a
2020	$14.7	11%
2021	$17.8	21%
2022	$22.3	25%
2023	$22.9	3%
2024	$25.3	10%
Change	**$12.0**	**91%**
5-Year CAGR		**13.7%**

2.) Fixed Income - Profit from greatest bond bull market in history / Avoid carnage of greatest bond bear market in history.

In 2021, the 40-year historic bubble in bonds reached its blow-off top. Bond prices reached all-time highs and conversely bond yields reached all-time lows. Mr. Market was feeling positively euphoric when it came to fixed income investments - especially those that were long dated. 10-year US treasuries were trading at a yield of less than 1% for much of 2020 and 2021.

Long duration bonds, with crazy low yields in 2020 and 2021, provided no margin of safety. Especially later in 2021, when it was clear that the economy was expanding and inflation was quickly becoming a big problem.

What did Fairfax do in late 2021?

1.) They sold their large portfolio of corporate bonds that were yielding about 1%, locking in large, realized gains:

> "During 2021, we sold $5.2 billion in corporate bonds, mainly acquired in March/April of 2020, at a yield of approximately 1%, for a gain of $253 million." *Fairfax 2021AR*

2.) They shortened the average duration of their fixed income portfolio ($37 billion in size at the time) to 1.2 years. And shifted the composition of the portfolio to higher quality holdings, mostly treasuries:

> "At the end of 2021, our fixed income portfolio, inclusive of cash and short-term treasuries, which effectively comprised 72% of our investment portfolio, had a very short duration of approximately 1.2 years and an average rating of AA-." *Fairfax 2021AR*

The team at Fairfax made these moves just months before the Fed (and other global central banks) unleashed hell on fixed income markets by spiking short interest rates. With hindsight, Fairfax's timing was close to perfect.

Having a very short duration portfolio at the end of 2021 had two key benefits:

- It protected Fairfax's balance sheet from interest rate risk - a rapid increase in interest rates would cause the value of bonds to plummet. This would then cause book value to fall. Long duration bonds were especially vulnerable.
- It provided valuable optionality - this would allow Fairfax to quickly take advantage of rising interest rates and dislocations in credit markets.

What happened?

When interest rates spiked in 2022 and 2023, Fairfax avoided taking billions in unrealized losses on their bond portfolio. And the earn through from higher rates was immediate - spiking interest income. **With their strong financial position, Fairfax was able to fully and aggressively exploit the hard market in P/C insurance.** The ratings agencies also upgraded Fairfax's credit ratings.

What about P/C insurance peers?

When the bond bubble was raging, they were busy dancing to the music (Chuck Prince would have been proud of them). They kept blindly matching the average duration of fixed income portfolio with the average duration of their insurance liabilities. When interest rates spiked in 2022 and 2023, many P/C insurance companies got their heads handed to them - book value fell at many companies from 15 to 30%.

Yes, it was not a solvency issue for these companies (although it could have been if losses from insurance had spiked at the same time). But the significant hit to their balance sheets was real. The earn through from higher rates was slow. And it hampered their ability to fully capitalize on the hard market in P/C insurance.

Summary

Fairfax was able to profit from the biggest bond bubble in history. And deftly largely side-step the biggest bond bear market in history. The financial benefits to Fairfax of these actions can be measured in the billions (the money made and then the losses avoided). Fairfax, and the fixed income team, sized this capital allocation decision exceptionally well (first selling $5.2 billion in corporate bonds and then shifting a $37 billion bond portfolio to 1.2 years average duration).

PS: One other P/C insurance company had a very low average duration with their fixed income portfolio in late 2021. Who was it? Berkshire Hathaway. Why? At that time, holding duration was a very low return and very high risk strategy. Therefore, it made no sense. Of course Buffett understood this - and he acted accordingly.

3.) Share buybacks - Aggressively buy back shares when they are trading at their cheapest valuation in history.

Share buybacks are one of the capital allocation options available to management. They can be very beneficial for shareholders if they are done in a responsible manner (purchased at attractive prices) and sustained over many years.

Share buybacks are such a good decision because of the certainty factor – of all the capital allocation options available to management, share buybacks carry the highest degree of certainty.

> "When companies with outstanding businesses and comfortable financial positions find their shares selling far below intrinsic value in the marketplace, no alternative action can benefit shareholders **as surely** as repurchases." *Warren Buffett – Berkshire Hathaway 1984AR*

Why are share buybacks so good?

Warren Buffett highlights two benefits for shareholders:

1. Higher per share intrinsic value – 'Basic arithmetic', according to Buffett.
2. Higher multiple - Communicates to existing and prospective shareholders that management is rational and running the business in a manner that is friendly to/aligned with shareholders.

It is counterintuitive, but for long term shareholders a low share price can be a big benefit - if the company is buying back shares and in a significant quantity. Especially if it persists for years.

What did Fairfax do?

Effective shares outstanding have been reduced from 26.8 million at December 31, 2019, to 21.7 million at December 31, 2024. This has been a decrease of 19.2% over the past 5 years.

Fairfax spent a total of $3.4 billion - this was a significant amount of capital. Fairfax paid an average price of $663/share. At June 30, 2025, Fairfax's book value was $1,058/share. Fairfax's intrinsic value is much higher than its book value. Over the past 5 years (2020 to 2024), Fairfax was able to buy back a significant number of shares (19.2%) at an average price far below their intrinsic value. The value creation over the past 5 years has been enormous (in the $ billions). The management team at Fairfax has sized this capital allocation decision exceptionally well.

Fairfax - Change in Shares Outstanding - 2019 to 2024				
	Effective Shares Outstanding	Share Reduction	Cost	
Year	YE m	m	Total ($b)	Per Share
2019	26.8	n/a	n/a	n/a
2020	26.2	0.655	$0.195	$298
2021	23.9	2.310	$1.132	$490
2022	23.3	0.541	$0.275	$509
2023	23.0	0.322	$0.246	$764
2024	21.7	1.335	$1.574	$1,179
Total - 2019 to 2024		**5.163**	**$3.422**	**$663**
		19.2%		

To reinforce the significant benefit of Fairfax's share buybacks, let's go back to our first point.

Total amounts (like net premiums written) matter to shareholders. However, what matters much more are the per share amounts (net premiums written per share).

Net premiums written per share have increased from $495 per share in 2019 to $1,166 in 2024, an increase of $671/share or 136%. Per share, the 5-year CAGR has been 18.7%. This is much better than the 5-year CAGR for total net premiums written of 13.7%.

Fairfax - NPW - Change From 2019 to 2024					Effective Shares
Net Premiums Written					
31-Dec	$ b	%	Per Share	%	m
2019	$13.3	n/a	$495	n/a	26.8
2020	$14.7	11%	$562	14%	26.2
2021	$17.8	21%	$745	33%	23.9
2022	$22.3	25%	$957	28%	23.3
2023	$22.9	3%	$996	4%	23.0
2024	$25.3	10%	$1,166	17%	21.7
Change	**$12.0**	**91%**	**$671**	**136%**	**-5.1**
5-Year CAGR		**13.7%**		**18.7%**	

4.) Fairfax total return swaps - Get creative to exploit a wonderful opportunity.

In late 2020/early 2021, Fairfax purchased total return swaps giving it exposure to 1.96 million Fairfax shares at an average price of $373/share.

In short, this was an investment for Fairfax. In itself.

At the end of 2020, Fairfax had 26.2 million effective shares outstanding - so this position gave it exposure to 7.5% of shares outstanding. This was a significant investment (in terms of exposure).

How has the investment performed?

Since inception (over the past 4.7 years), the investment has delivered to Fairfax a total return of about $2.6 billion (before carrying costs). The FFH-TRS has become one of Fairfax's best-ever investments.

Fairfax has begun to unwind the position. In late 2024, the position was reduced from 1.96 million to 1.76 million shares. (Of interest, Fairfax bought back the 204,000 shares from the counterparty and retired them.)

This investment is a great example of how creative Fairfax can be when it comes to capital allocation. At $2.6 billion, the financial benefit from investment this has been significant. The management team at Fairfax has sized this capital allocation decision exceptionally well.

Fairfax - Estimated Total Return From Investment in				
FFH-Total Return Swaps		FFH	TRS	
Sept 17, 2025	Shares	Share	Market	
Current position	m	Price	Value	Date
Average cost	1.760	$373	$656	Q4 '20/Q1 '21
Market value	1.760	$1,730	$3,045	Sept 17, 2025
Increase in MV of current position			$2,388	
Estimate of gain on position closed out in Q4, 2024				Date
Total shares closed out (m)		0.2038		
Total cost to close out position ($m)		$284		
Estimated cost per share		$1,393		Dec 20, 2025?
Estimated gain for Fairfax per share		$1,020	$208	Total $ gain
Total increase in value for Fairfax (1)			$2,596	4.7 Year return
(1) Increase in value before carrying costs				

5.) Eurobank - Exercising patience and letting a large legacy holding run.

Over the past 5.7 years, Fairfax's investment in Eurobank has increased in value by $3.6 billion, a CAGR of 26.4%. Eurobank has quietly grown into Fairfax's largest equity investment. Has Eurobank become Fairfax's best-ever equity investment?

What happened?

- Exceptional management - Over the past 7 years, the management team at Eurobank has been putting on a clinic. Their most recent great decision was the purchase of Hellenic Bank (at a price of 4 x earnings).
- Strong economic performance: The depression in Greece ended. For two elections in a row, Greece has elected a pro-business government to a majority. Animal spirits have been unleashed. And Greece has had one of Europe's best performing economies.
- Increase in interest rates: Central banks around the world ended their disastrous zero interest rate policies. Higher interest rates have spiked earnings for banks.
- Patient controlling shareholder (Fairfax): Eurobank was given time to work through their issues. This also allowed them to think strategically and manage the business for the long-term.

This investment is a great example of the benefits of doing nothing (in terms of position size). Fairfax has exercised great patience with this investment. This patience has allowed the position to mushroom in size from $1.3 billion at December 31, 2019, to $4.5 billion at September 17, 2025. The management team at Fairfax has sized this capital allocation decision exceptionally well.

Fairfax - Estimated Total Return on Investment in Eurobank				
Over Past 5.7 Years - From Dec 31, 2019 to Sept 17, 2025				Shares
	Stock Price		MV of	Owned
Market value	Euro	US$	Position	by FFH
December 31, 2019	€ 0.913	$1.025	$1,298	1,266
September 17, 2025	€ 3.200	$3.781	$4,484	1,186
Increase in market value			**$3,186**	
Proceeds Received By Fairfax	Dividends	Aug 2024	$126	
		May 2025	$142	
	Stock sale	Jan 2025	$191	
Total increase in value Dec 31, 2019 - Sept 17, 2025			**$3,645**	**281%**
5.7-Year CAGR				**26.4%**
Carrying Value (June 30, 2025)			$2,538	
Excess of MV over CV (Total & Per FFH Share)			**$1,946**	**$90**

Excess of fair value over carrying value

At September 17, 2025, the market value (MV) of Fairfax's position in Eurobank was $4.5 billion. At June 30, 2025, the carrying value (CV) of Fairfax's position in Eurobank was $2.5 billion. The excess of MV over CV is about $2 billion or $90 per Fairfax share (pre-tax). This is economic value that has been created by Fairfax in recent years that has not been captured/reflected in its accounting results (EPS, BV and ROE).

6.) Asset sales - Capitalizing on volatility / Exploiting Mr. Market

Why sell an asset?

There are a number of good reasons to sell an asset. Perhaps another company - who is willing to pay up - values an asset at a much higher value than you do. There also can be important strategic reasons to sell an asset.

Asset sales have been a very important part of Fairfax's capital allocation framework over its entire existence, realizing significant value for Fairfax and its shareholders. Fairfax is unique among P/C insurance companies in how active it has been in using this important tool in the capital allocation toolbox.

Below we will review three asset sales that Fairfax has executed in recent years:

Pet insurance (2022) - Capitalizing on the mania in cats and dogs

Pets have been a rapidly growing business segment in North America for the past 30 years. Covid took this growth to a higher level. Especially the services part of the business (veterinary services, pet insurance, supplies etc). On the service side, the business model was shifting to a 'one stop shop' model for pet owners – get all your pet needs taken care by one provider. The big players in the industry (like JAB Holding) were in a race to consolidate (to get scale) and the price for good assets went through the roof – reaching mania/bubble proportions.

In June 2022, Fairfax announced that it had sold its pet insurance business (which resided in Crum & Forster) to JAB Holding for $1.4 billion. With the sale, Fairfax realized a gain of $1.2 billion pre-tax and $934 million after-tax.

For a little background, Fairfax purchased Hartville Group for $34 million in 2013 and Pet Health for $89 million in 2014 and then sold the combined entity in 2022 for $1.4 billion. That is nuts. Fairfax has a long history of buying small insurance businesses and patiently incubating/growing them over a decade or more and then selling them for very large gains: First Capital, ICICI Lombard, Riverstone UK and now C&F pet insurance. Very impressive.

Resolute Forest Products (2022) - Exiting a big mistake and capitalizing on the bubble in lumber

In July 2022, Fairfax sold Resolute Forest Products (RFP) to Paper Excellence Group (a global diversified manufacturer of pulp and specialty, printing, writing and packaging papers) for total consideration of $665.6 million ($20.50/share).

Fairfax got a premium price for the asset - Fairfax sold it for $20.50/share at the peak of the bull market in lumber. For perspective, back in March 2020, RFP shares traded as low as $1.20/share. Fairfax owned 30.5 million shares, so RFP's market cap in March of 2020 was a total of $37 million. Two short years later Fairfax sold it for total proceeds of $665.6 million. Wow! Pre-pandemic, RFP's shares traded at an average of about $6/share. In the historic lumber bull market of 2021, RFP's shares traded at an average of about $12/share. Bottom line, at $20.50, Fairfax got an outstanding price for this company.

With the sale, Fairfax also exited a big mistake - Fairfax got one of their worst ever equity purchases off their books. RFP also owned some pretty crappy businesses: newsprint, paper and tissue. And the 'good' business, lumber, was getting hit by higher mortgage rates. Bottom line, Fairfax sold what was overall (still) a very challenged business.

Like with pet insurance, this is a great example of the significant benefits that can come from active management - sell an asset at a bubble high price and flip the proceeds into other assets selling at bear market low prices.

Fairfax - Summary of Proceeds from Sale of Resolute Forest Products

Shares	Proceeds		
Owned *	Per share	Total	Comments
30.548	$20.50	$622.2	Cash for shares
30.548	$1.42	$43.4	FV of contingent value right **
		$665.6	**Total consideration**

Shares owned * - includes AVLN shares (from RiverStone Europe sale)
Contingent value right ** - potential softwood duty deposit refund

Stelco (2024) - Capitalizing on the consolidation wave happening in the North American steel market

Taking advantage of the consolidation happening in the North American steel industry, Stelco was sold to Cleveland-Cliffs in Q4, 2024, at a nosebleed-high price. The timing of the sale was perfect - in 2025, President Trump has imposed steep tariffs on Canadian steel, which severely hurts the business of a Canadian steel producer like Stelco.

What kind of a return did Fairfax generate on its 6-year investment in Stelco?

In November 2018, Fairfax invested $193 million in Stelco. Over the past 6 years, Fairfax earned a total return of $544 million on its investment in Stelco, or 282% = 6-year CAGR of 25%.

Fairfax - Estimate of Total Return on Investment in Stelco					
December 27, 2024	**Transaction**	**Share**	**Total Value**		
	Date	**Price C$**	**C$ m**	**US$ m**	
Initial investment in Stelco	Nov 2018	$20.50	$267	$193	
Proceeds sale of Stelco shares	Nov 2024	$60.00	$780	$561	
Increase in market value since inception (Nov 2018)				**$368**	**191%**
Regular dividends received since 2018				$54	
Special dividends received since 2018				$68	
Cleveland Cliffs shares received	13 x .454	5.9	$9.26	$55	
Total return on investment from inception (Nov 2018)				**$544**	**282%**
		6 year CAGR (US$)		**25%**	

Summary of asset sales

With the three assets sales profiled above, we can clearly see the benefits of active management. In each example, Fairfax was able to exploit volatility / Mr. Market.

Fairfax was able to execute both the pet insurance and RFP sales in 2022 in the middle of a bear market (in both stocks and bonds). Fairfax was then able to reinvest the significant proceeds into other assets that were selling at steep discounts and support the growth of the P/C insurance subsidiaries in the hard market. The sale of Stelco was also timed perfectly.

In each the three examples, the management team at Fairfax got a premium valuation for the asset being sold. The management team at Fairfax sized each of these capital allocation decisions exceptionally well.

Part 5: Summary of capital allocation and position size

What are the key take-aways/learnings from our 6 examples?

1.) Large size - Each example involved a significant amount of capital. Fairfax bet big.

2.) High return - Each example has delivered a minimum of $1 billion in value creation. Most delivered $2 billion. Some have delivered $3 billion. Each capital allocation decision has delivered an outstanding result/return.

3.) High frequency - Fairfax has been right a lot.

Context matters. At the end of 2019, common shareholders' equity at Fairfax was $13 billion. One exceptional capital allocation decision moves the needle for the company - is very impactful. But being right 6 different times? When you stack them up - one on top of the other - the impact on Fairfax and its business results has been magic.

But there is much more to this story.

4.) Breadth - All parts of the organization are very good at sizing their capital allocation decisions.

- Head office
- Across P/C insurance and investment management businesses.
- Within investment management - across fixed income and equities.

5.) Complementary nature - Fairfax's structure and business model allows the benefits from one decision to be leveraged with another.

- Example: Sell assets at a premium valuation and use the proceeds to grow P/C insurance in the hard market and buy back stock when it is trading at a very low valuation.

6.) Low risk - Each of the 6 decisions were very low risk / high return decisions for Fairfax. That demonstrated exceptional risk management. (Risk is defined as permanent loss of capital and not short term price volatility.)

- Fairfax is a P/C insurance company. Aggressively growing its P/C insurance business in a generational hard market was a very low risk decision.
- Taking the average duration of the bond portfolio to 1.2 years in late 2021 was exceptional risk management. Conversely, buying/holding long duration bonds in late 2021 was a very high risk thing to do (and is what most other P/C insurance companies were doing).
- When done well (like Fairfax has), share buybacks are an extremely low risk capital allocation activity - the company has a big informational advantage over Mr. Market (in terms of the business fundamentals, prospects and valuation).
- Fairfax total return swaps - Like with buybacks, Fairfax had a big informational advantage over Mr. Market when they entered into this position at a crazy low price of $373/share.
- Eurobank - Greece electing a pro-business government to a majority, an improving economy and rising interest rates de-risked this investment greatly.
- Selling assets at a nosebleed/bubble high prices is a very low risk capital allocation decision.

7.) Simple - Each of the 6 decisions that Fairfax made was a simple one. They were 1-foot hurdles for the company. Capital allocation is hard. Keeping it as simple as possible is important.

8.) Fairfax has been doing much more on the capital allocation / position sizing front than what has been covered in our 6 examples. We could have included another 10 or 15 examples in our analysis. And while they were not as large/impactful as the 6 we profiled they all have been impactful to Fairfax and its business results.

<u>What did we learn?</u>

> In the words of the prophet Mae West: "Too much of a good thing can be wonderful."
>
> *Warren Buffett - Berkshire Hathaway 1993AR*

Fairfax is very skilled at position sizing. Across the entire organization. And it looks like they are getting better. As a result, I think we can conclude that they are very good/skilled at capital allocation.

- They have the knowledge - They know what to do.
- They have the skill - They know how to do it.
- They have the desire - It is part of the company's culture. They want and are rewarded for doing it.

In short, how to do capital allocation well has become a habit at Fairfax.

How good are they at capital allocation?

Based on what we have seen over the past 5 years, I would give Fairfax a rating of 9 out of 10.

Not a 10?

No.

Who would get a 10?

The pre-2000 version of Warren Buffett/Berkshire Hathaway.

Summary - Fairfax and properly sizing a capital allocation decision:

> "**Sizing is 70% to 80% of the equation.** Part of the equation is seeing the investment, part of the investment is seeing myself in a good trading rhythm. **It's not whether you're right or wrong, it's how much you make when you're right and how much you lose when you're wrong**…"
>
> *Stanley Druckenmiller*

Over the 5-year period from 2019 to 2024, Fairfax has delivered:

- BVPS CAGR = 16.9%
- Share price CAGR = 25.2%

This performance has been significantly better than other P/C insurance peers.

This performance has happened because Fairfax is very good at capital allocation. One of the reasons is Fairfax is very skilled at sizing its decisions.

Fairfax is like a star athlete that is just entering their prime.

Is that how the stock is valued?

No. the stock is valued at the low end of P/C insurance peers. That is a great set-up for a long term investor.

Growing earnings + expanding multiple + lower share count = usually results in good to very good returns over time

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Why do most P/C insurance companies fail at position sizing?

1.) Lack of skill.

2.) Structure.

- Timeframe - Wall Street works very short term. Quarterly. This makes it impossible to size positions properly.
- Ownership structure is also an impediment. Make what looks like a short term dumb decision and you could be out of a job. This is too risky for most management teams of publicly traded companies. Better to fail traditionally than to succeed unconventionally.

Of the two, structure is the more important. It doesn't allow it (or reward it). In short, the structure ensures the skill will never be developed.

The 2 exceptions are Berkshire Hathaway and Fairfax. Both have a controlling shareholder. So structure is not an impediment - it is an enabler. The focus is on per share value creation for shareholders over the long term. Position size is recognized as an important and critical piece in the capital allocation puzzle - a valued skill that needs to be appreciated, developed and used properly.

Warren Buffett on Capital Allocation – Circle of Competence, Margin of Safety and Concentration

May 19, 2024

Being a good investor is the same thing as being a good capital allocator.

Warren Buffett is a great teacher. In his 1996 shareholder letter, Buffett succinctly lays out what an investor needs to do to be successful. This is the same approach that Berkshire Hathaway has followed - quite successfully - for decades. We have included Buffett's full quote below.

In his framework, Buffett introduces the concept of 'circle of competence.' Given its importance, we will explore it more fully in the next section.

Warren Buffett - 1996 Shareholder Letter

"Let me add a few thoughts about your own investments. Most investors, both institutional and individual, will find that the best way to own common stocks is through an index fund that charges minimal fees. Those following this path are sure to beat the net results (after fees and expenses) delivered by the great majority of investment professionals.

"Should you choose, however, to construct your own portfolio, there are a few thoughts worth remembering. Intelligent investing is not complex, though that is far from saying that it is easy. What an investor needs is the ability to correctly evaluate selected businesses. Note that word "selected": You don't have to be an expert on every company, or even many. **You only have to be able to evaluate companies within your circle of competence. The size of that circle is not very important; knowing its boundaries, however, is vital.**

"To invest successfully, you need not understand beta, efficient markets, modern portfolio theory, option pricing or emerging markets. You may, in fact, be better off knowing nothing of these. That, of course, is not the prevailing view at most business schools, whose finance curriculum tends to be dominated by such subjects. In our view, though, investment students need only two well-taught courses - How to Value a Business, and How to Think About Market Prices.

"Your goal as an investor should simply be to purchase, at a rational price, a part interest in an easily-understandable business whose earnings are virtually certain to be materially higher five, ten and twenty years from now. Over time, you will find only a few companies that meet these standards - so when you see one that qualifies, you should buy a meaningful amount of stock. You must also resist the temptation to stray from your guidelines: If you aren't willing to own a stock for ten years, don't even think about owning it for ten minutes. Put together a portfolio of companies whose aggregate earnings march upward over the years, and so also will the portfolio's market value.

"Though it's seldom recognized, this is the exact approach that has produced gains for Berkshire shareholders: Our look-through earnings have grown at a good clip over the years, and our stock price has risen correspondingly. Had those gains in earnings not materialized, there would have been little increase in Berkshire's value."

Mental model: Circle of competence

A mental model is simply a framework that helps us understand how something works. Mental models guide our behaviour and they help us solve problems.

> "The more models we have, the better able we are to solve problems. But if we don't have the models, we become the proverbial man with a hammer. To the man with a hammer, everything looks like a nail. If you only have one model, you will fit whatever problem you face to the model you have." *Charlie Munger*

To guide investors, Warren Buffett introduces the concept of 'circle of competence' as a foundational mental model.

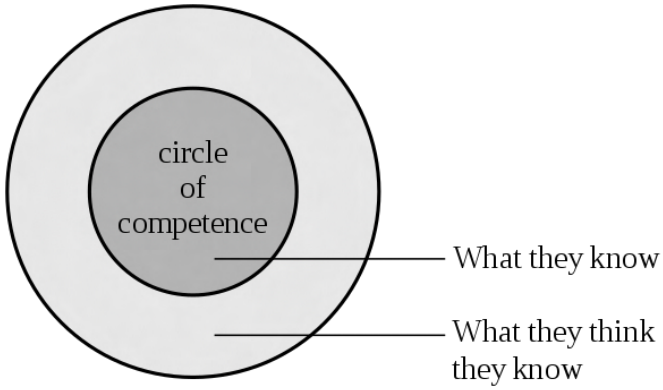
What is it?

'Circle of competence' is a subject area when you have an edge. It is a match with your skills and experiences.

To be successful at investing, stick to areas where you know more than other people. This might sound obvious. Few actually do it.

It allows you to answer the 3 fundamental questions:

1. Do you understand the business?
2. Is it run by competent management?
3. Does it sell for a price that is attractive?



Let's revisit Buffett's quote:

> "You only have to be able to evaluate companies within your circle of competence. The size of that circle is not very important; knowing its boundaries, however, is vital." *Warren Buffett 1996 Shareholder Letter*

Buffett highlights a number of important points:

- Self-awareness: You have to know what your circle of competence is.
- The size of the circle is not very important. Importantly, it can be expanded over time.
- Knowing the boundaries is 'vital'. This is knowing what to avoid.

In the HBO documentary linked below, Buffett expands on 'circle of competence' and provides additional insight:

- Patience: wait for the right opportunity - one that is in your 'sweet spot.'
- Think independently: don't let the mood of Mr. Market influence what you are doing.

HBO Documentary: Becoming Warren Buffett (30:30 minute mark)

- https://youtu.be/2Q5zhl4YVo8?si=A5RY0o3ivBfbPHYz

"I was genetically blessed with a certain wiring that is very useful in a highly developed market system that has lots of chips on the table where I happen to be good at that game

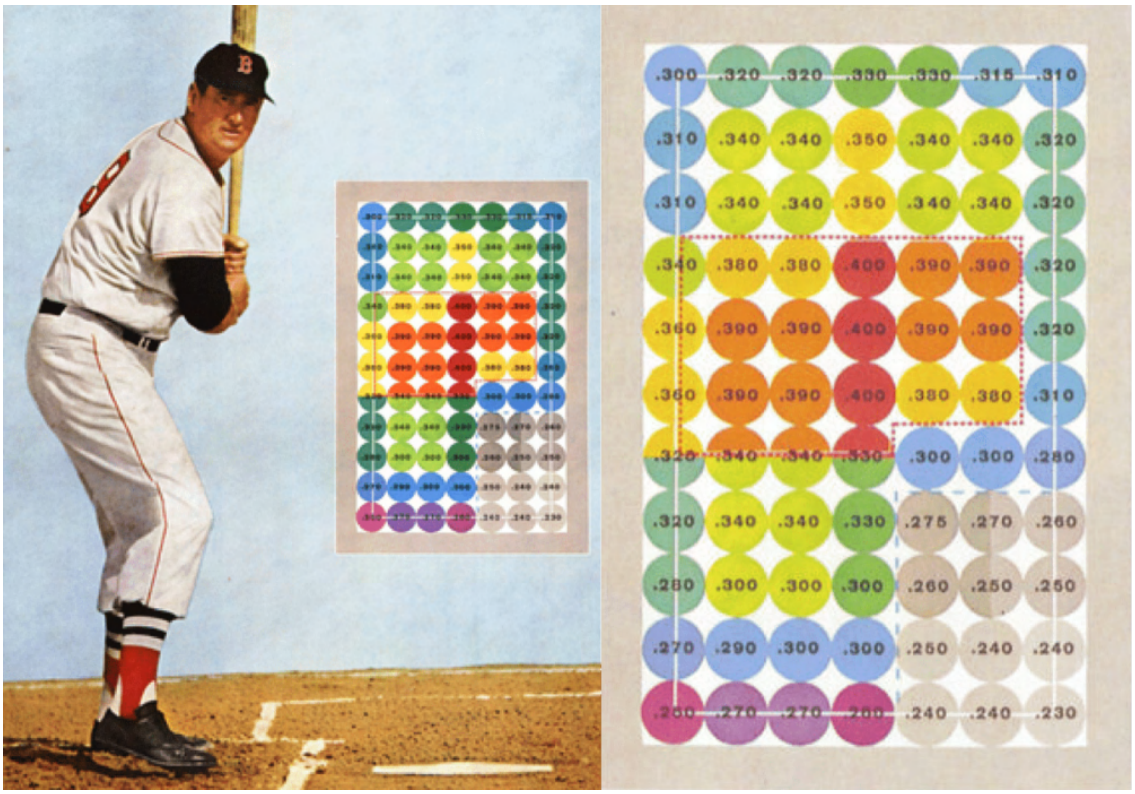
"Ted Williams wrote a book called the science hitting. In it he has a picture of himself at bat and the strike zone broken into 77 squares. He said if he waited for the pitch that was really in his sweet spot he would bat 400 and if he had to swing at something in the lower corner he would probably bat 235.

"In investing I'm in a no-called strike business, which is the best business you can be in. I can look at 1000 different companies and I don't have to be right on every one of them or even 50 of them. So I can pick the ball I want to hit.

"The trick with investing is to sit there and watch pitch after pitch go by and wait for the one that is right in your sweet spot. If people are yelling 'swing you bum!' Just ignore them.

"There is a temptation for people to act far too frequently in stocks simply because they're so liquid.

"Over the years you develop a lot of filters. I do know what is called my circle of competence. So I stay within that circle. I don't worry about things that are outside of that circle. Defining what your game is… where you're going to have an edge… is enormously important."



Margin of safety

> "If you were to distil the secret of sound investment into three words we venture the motto, margin of safety." *Ben Graham The Intelligent Investor - Chapter 20*

Margin of safety is one of the most important principles/concepts in investing. It is defined as the difference between a stock's price and its intrinsic value.

Buying a stock with a large margin of safety does two things at the same time:

- Limits the downside risk.
- Provides a high return opportunity.

Circle of competence and margin of safety

Only invest in opportunities that:

- Fall within your circle of competence.
- Can be purchased at prices that provide a margin of safety

> "If you understood a business perfectly — the future of a business — you would need very little in the way of a margin of safety," *Warren Buffett - 1997 Berkshire Hathaway Annual Meeting*

Concentration

> "Diversification may preserve wealth, but concentration builds wealth." *Warren Buffett*

> "If you can identify six wonderful businesses, that is all the diversification you need. And you will make a lot of money. And I can guarantee that going into a seventh one instead of putting more money into your first one is gotta be a terrible mistake. Very few people have gotten rich on their seventh best idea. But a lot of people have gotten rich with their best idea. So I would say for anyone working with normal capital who really knows the businesses they have gone into, six is plenty…" *Warren Buffett - Talk at Florida University 1998 (1:05:30 mark)*
>
> - https://youtu.be/2MHIcabnjrA (great 90 minute video)

A key part of Berkshire Hathaway's long-term success has been holding a concentrated portfolio of investments.

Circle of competence and concentration

Only investing in his 'circle of competence' gives Buffett conviction - and allows him to concentrate in his best ideas. This further improves Berkshire Hathaway's long term returns.

Summary: Circle of competence, margin of safety and concentration

Circle of competence, margin of safety and concentration are concepts that are inter-related and synergistic. Combined, they provide results that are far more powerful than those that could be achieved on their own. (1 + 1 + 1 = 4)

- Circle of competence = good returns
- Circle of competence + margin of safety = better returns
- Circle of competence + margin of safety + concentration in best ideas = best returns

Key take-away: Of the three, circle of competence is perhaps the most important component. It is the lynchpin. It is what allows the other two components to work their magic.

As he told us earlier, this has been the approach that Buffett has been using with great success to grow Berkshire Hathaway for decades. **This also gives investors a blueprint to evaluate the capital allocation skills of management teams at other companies.**

Let's now apply what we have learned. The next post will explore the capital allocation decisions of Fairfax Financial. We are also going to explore something Charlie Munger called 'cannibal investing.'

Find the Cannibals - Companies (like Fairfax) that are Devouring Themselves

September 15, 2025

This post has been broken into the following 5 parts:

- Part 1: Introduction - What is a financial cannibal?
- Part 2: Fairfax - Record earnings and capital allocation
- Part 3: Examples of Fairfax being a cannibal investor (2021 to 2024)
    - Stock buybacks
    - Take out partners in P/C insurance (minority and majority)
    - Take out partners in equity holdings (public and private)
- Part 4: Summary
- Part 5: Capital allocation - The big picture

Part 1: Introduction - What is a financial cannibal?

One of Charlie Munger's investing strategies was to look for 'financial cannibals.' This referred to companies that were buying back a large amount of their own stock over long periods of time. Of course, the price paid for the stock was important. Buying back large amounts of stock at cheap prices creates extraordinary value for shareholders.

The math: Assuming net earnings remain the same, a lower share count will increase EPS.

Earnings Per Share (EPS) =	Net Earnings Attributable to Common Shareholders	(numerator)
	Total Shares Outstanding	(denominator)

This strategy can work so well because it checks all three boxes of a successful capital allocator:

- Circle of competence - The management team has a big edge here. It understands the business better than anyone else (management, fundamentals and prospects).
- Margin of safety - The management team also has a big edge here. It is able to calculate the intrinsic value of the company better than anyone else and understand how it compares to the current market value.
- Concentration - When shares get wicked cheap (intrinsic value is much higher than the market value) management can buy back shares in volume.

Buying back stock is a high certainty capital allocation decision (versus the other options available to a management team). When executed properly, this strategy is very low risk and can deliver a high rate of return. It is a great way to grow per share value for long term shareholders.

"…what those (prosperous) companies had in common was they bought huge amounts of their own stock and that contributed enormously to the ending record. Lou, Warren, and I would always think the average manager diversifying his company with surplus cash that's been earned more than half the time they'll screw it up. They'll pay too high a price and so on. In many cases they'll buy things where an idiot could see they would have been better to buy their own stock than buy this diversifying investment. And so somebody with that mind-set would be naturally drawn to what Jim Gibson used to call "financial cannibals," people that were eating themselves." *Charlie Munger*

Janet Lowe - Damn Right: Behind the Scenes with Berkshire Hathaway Billionaire Charlie Munger

Broadening out the definition of a financial cannibal - Buying more of something that you already own

We are going to broaden out our definition of what a financial cannibal is. And that is because Munger's original idea has been expanded and improved upon.

We define a financial cannibal as a company that is aggressively buying more of something that it already owns.

This definition includes stock buybacks, which lowers total shares outstanding (lowers the denominator when calculating EPS). But this definition also includes activities that increase net earnings attributable to common shareholders (increases the numerator when calculating EPS).

What are we talking about?

We will get into some examples of this later in the post.

Part 2: Fairfax - Record earnings and capital allocation

Today Fairfax is generating a record amount of earnings. And given their sources (high quality), very high earnings are expected to continue for the next 3 or 4 years (which is as far as my crystal ball attempts to see). This means Fairfax will be allocating a record amount of capital over the next 4 years.

Like all companies, Fairfax has three basic options when it comes to capital allocation:

- Buy back stock
- Re-invest in the business (organic growth or acquisitions)
- Pay a dividend

What exactly will Fairfax do?

Of course, this is the rub. The answer is we don't know exactly what Fairfax will do. What Fairfax does will depend on a number of factors (internal and external). So, when it comes to future capital allocation decisions, investors will need to trust the management team at Fairfax.

Should we trust the management team at Fairfax?

Will they be rational? Will they allocate capital in a way that builds per share value for shareholders over the long term?

To help answer these questions we need to look into the past.

But how far back do we need to go?

Given Fairfax's colourful history, this is a really interesting question.

My view is investors should focus primarily on recent history. Let's look at what Fairfax has been doing over the past 4 years.

Part 3: Examples of Fairfax being a cannibal investor (2021 to 2024)

When we look at the 4 year period from 2021 to 2024, we see numerous examples of Fairfax engaging in 'cannibal investing.'

1.) Fairfax has been buying back its stock.

But it has also been doing much more. It has also been aggressively investing in its businesses.

2.) It has also been growing its P/C insurance businesses by taking out its partners (minority and majority).
3.) And it has been growing its non-insurance businesses by taking out its partners (public and private) in its consolidated equity holdings.

All three are examples of cannibal investing. Fairfax has been buying much more of stuff they already own.

Let's review each of these three examples in more detail:

1.) Stock buybacks

Over the 4-year period from 2021 to 2024, Fairfax spent $3.2 billion to repurchase 4.5 million shares at an average cost of $716/share. This reduced effective shares outstanding by 17.2% or an average of 4.3% per year.

This was a massive stock buyback by Fairfax. But more important than the size was the average price paid of $716/share. At June 30, 2025, Fairfax's book value was $1,158/share. Fairfax's intrinsic value is much higher than its book value. Over the past 4 years, Fairfax was able to buy back a significant number of shares at an average price that was well below its intrinsic value.

Fairfax - 4-Year Reduction In Shares Outstanding				
	Effective Shares	Share Reduction	Total Cost	Avg Cost
Year	YE m	m	US$ b	Per Share
2020	26.2	n/a	n/a	n/a
2021	23.9	2.31	$1.132	$490
2022	23.3	0.54	$0.275	$509
2023	23.0	0.32	$0.246	$764
2024	21.7	1.34	$1.574	$1,179
Totals	**17.2%**	**4.51**	**$3.227**	**$716**
4-Year Avg	**4.3%**			

But the buyback story gets even better…

FFH-Total Return Swaps

In late 2020/early 2021, Fairfax made another significant investment - the company purchased total return swaps giving it exposure to 1.96 million Fairfax shares.

The total return swap position can be viewed as a share buyback of sorts. (Fairfax reduced the size of the investment to 1.76 million shares in Q4,2024 by buying back 203,800 shares.)

For fun, let's combine the total return swaps and share buyback investments.

Over the 4-year period from 2021 to 2024, Fairfax got exposure to 6.27 million (or 23.9%) of its effective shares outstanding at an average cost of $620/share.

Fairfax - Combining Share Repurchases with FFH-TRS			
	Share Reduction	Total Cost	Avg Cost
	m	US$ b	Per Share
4-Year Share Reduction	4.51	$3.227	$716
FFH-Total Return Swaps	1.76	$0.656	$373
Total Shares 'Purchased'	**6.27**	**$3.884**	**$620**
4-Year Total	**23.9%**		
4-Year Average	**6.0%**		

2.) Take out partners in P/C insurance (minority and majority)

When Fairfax went on its aggressive P/C insurance expansion from 2015 to 2017 they were short on cash. What to do? Bring on minority equity partners. Bringing on minority partners allowed Fairfax to buy more (control positions) when P/C insurance companies were on sale.

Now that Fairfax is flush with cash, what has it been doing? Yes, it has been taking out the minority partners in its P/C insurance businesses. In some cases, it has also been taking out the majority partners.

Importantly, when the deals were put in place with the minority P/C insurance partners each of them included a call option feature. The call option gave Fairfax the right - but not the obligation - to buy out their minority partner at a specified price and by a specified date. Fairfax profits if the underlying asset increases in value (which is what has happened).

These are all quality P/C insurance companies. Because of the call option feature, Fairfax is able to buy out its minority partners at a very low (favourable) price.

Over the 4-year period from 2021 to 2024, Fairfax has spent $2.26 billion to take out its partners and increase its ownership stake in its existing P/C insurance businesses.

This use of capital is shrinking the amount of Fairfax's net earnings are going to minority shareholders. And it is increasing the amount of net earnings attributable to Fairfax's common shareholders.

Fairfax - Buying Out P/C Insurance Partners from 2021 to 2024

Year	Holding	Amount US$	Increase in Fairfax's Ownership Level	Seller
2021	Eurolife	$143	From 50% to 80%	OMERS
	Singapore Re	$103	From 28.1% to 100%	Private
2022	Allied World	$733	From 70.9% to 82.9%	OMERS
2023	Gulf Insurance Group*	$740	From 43.4% to 90%	KIPCO
	Allied World	$31	From 82.9% to 83.4%	Misc
2024	Gulf Insurance Group	$127	From 90% to 97%	Public
	Brit	$383	From 84.2% to 100%	OMERS
	Total Cost	**$2,260**		

Gulf Insurance Group * = $740 million = fair value consideration.

3.) Take out partners in equity holdings (public and private)

In recent years, Fairfax has materially increased the size (and earnings power) of its collection of consolidated equity holdings.

Over the 4-year period from 2021 to 2024, Fairfax spent $1.06 billion to increase its ownership in many of its existing equity holdings.

With the Recipe take-private in 2022, Fairfax took out their public partners (at a depressed price due to Covid). With the other holdings they took out their private partners.

Importantly, much of the cash for these purchases did not come from Fairfax. It came from borrowings from the equity holdings themselves. These borrowings are non-recourse to Fairfax. (I describe it as an 'LBO-light' kind of strategy on the part of Fairfax.)

This use of capital is eliminating the amount of net earnings from these equity holdings that was going to Fairfax's public and private partners. And it is increasing the amount of net earnings from these equity holdings that will be attributable to Fairfax's common shareholders.

Fairfax - Increasing Ownership of Equity Holdings from 2021 to 2024

Year	Holding	Amount US$	Increase in Fairfax's Ownership Level	Seller
2022	Recipe	$342	From 46% to 84% (at C$20.73/share)	Public
	Grivalia Hospitality	$195	From 33.5% to 78.4%	Private
	Sporting Life		From 71% to 88.5% (paid from cash flow)	Private
2023	Grivalia Hospitality		From 78.4% to 85%	Private
2024	Meadow Foods	$83	To 93.2%	Private
	Peak Achievement	$439	From 42.6% to 100%	Sagard
	Total Consolidated	**$1,059**		

Part 4: Summary

So, what have we learned in this post?

In recent years, Fairfax has been gorging on itself.

Over the 4-year period from 2021 to 2024, Fairfax has spent (loosely speaking) a total of about $6.55 billion executing three different capital allocation activities:

- Share buybacks = $3.23 billion
- Take out partners in P/C insurance = $2.26 billion
- Take out partners in equity holdings = $1.06 billion

With each strategy, Fairfax was simply buying much more of things they already owned. As a result, these three strategies can be collectively described as 'cannibal investing.'

The benefits of 'cannibal investing' are as follows:

- Low risk - Fairfax invested in things they understood exceptionally well.
- Low price - They got much of it on sale.
- Purchased a large amount - A significant amount of capital was invested.

The math is pretty straight forward. Taking out partners (in P/C insurance and equities) increases earnings (the numerator). And buybacks lower the share count (the denominator). Doing one is powerful. Doing both at the same time - well that is magic - it spikes EPS.

Cannibal investing is incredibly simple. And effective. Fairfax has taken Munger's original idea and expanded and improved on it. It is just another example of how good Fairfax is at capital allocation.

Earnings Per Share (EPS) =	Net Earnings Attributable to Common Shareholders	(numerator)
	Total Shares Outstanding	(denominator)

Part 5: Capital allocation - The big picture

Of course, over the 4 years from 2021 to 2024, Fairfax was doing much more on the capital allocation front than just 'cannibal investing'. Among other things, the company has also been:

- Aggressively growing its P/C insurance business - Taking full advantage of the hard market that started in late 2019.
- Selling assets at premium valuations - Pet insurance and Resolute Forest Products (2022), Ambridge Parners (2023) and Stelco (2024).
- The fixed income team navigated the greatest bond bull/bear market in history. Protected balance sheet. Now earning record interest income.
- The equity team has dramatically improved the overall quality of the equity portfolio. Exited many poor investments. Merged others with stronger companies. New investments have been performing well. Some legacy investments have turned around.
- Dividend - Currently = $15/share.

When it comes to capital allocation, Fairfax's track record in recent years has been outstanding. The team at Fairfax has been hitting the ball like Ted Williams. As a result, earnings at Fairfax have spiked higher. At the same time, the share count has come down meaningfully. Earnings per share has spiked higher. The narrative/sentiment is improving and this is driving multiple expansion. And this is driving Fairfax's stock price higher.

Capital allocation is hard. As a result, most companies mess it up. One of the best strategies that can be used is to buy more of stuff you already own (and like). Fairfax has been doing a lot of this type of capital allocation over the past 4 years. That is a sign of a very good management team. Through their actions, Fairfax continues to earn the trust of shareholders.

Henry Singleton is one of the GOAT's. What did he teach Fairfax about Capital Allocation?

July 28, 2024

> "The failure of business schools to study men like (Henry) Singleton is a crime."
>
> *Warren Buffett (quote from John Train's book The Money Masters)*

Fairfax's business model has been inspired by many great businesspeople/investors over the years. Who are some that immediately come to mind? Here is my top 3 list:

1. Warren Buffett - P/C insurance model (float); operating structure.
2. Ben Graham - Value investing framework.
3. John Templeton - Go international; buy at the point of maximum pessimism.

Did I get the top 3 right? Let me know what you think.

Who should be #4 on the list?

I think it might be Henry Singleton.

What did Fairfax learn from Henry Singleton?

How to think about - and do - capital allocation. The big picture part of capital allocation.
Use all the available tools (both 'sources of cash' and 'uses of cash') and use them at the right time.
And go big when appropriate.

(Another more recent thing is optimizing the cash that is being earned by the operating businesses.)

Who is Henry Singleton?

Henry Singleton is an individual who is not well followed. That is interesting given his amazing accomplishments over his lifetime.

Below is a short biography from Wikipedia:

> "Henry Earl Singleton (November 27, 1916 – August 31, 1999) was an American electrical engineer, business executive, and rancher/land owner. Singleton made significant contributions to aircraft inertial guidance and was elected to the National Academy of Engineering. He co-founded Teledyne, Inc., one of America's most successful conglomerates, and was its chief executive officer for three decades. Late in life, Singleton became one of the largest holders of ranchland in the United States."
>
> https://en.wikipedia.org/wiki/Henry_Earl_Singleton

What was Henry Singleton's track record?

Here is how William Thorndike, author of The Outsiders, sums up Henry Singleton's track record:

> "Singleton left behind an extraordinary record, dwarfing both his peers and the market. From 1963 (the first year for which we have reliable stock data) to 1990, when he stepped down as chairman, Singleton delivered a remarkable 20.4 percent compound annual return to his shareholders (including spin-offs), compared to an 8.0 percent return for the S&P 500 over the same period and an 11.6 percent return for the other major conglomerate stocks.
>
> "A dollar invested with Henry Singleton in 1963 would have been worth $180.94 by 1990, an almost ninefold outperformance versus his peers and a more than twelvefold outperformance versus the S&P 500…" *William Thorndike - The Outsiders*

Here is what Warren Buffett, a pretty hard marker, had to say about Henry Singleton:

> "Henry Singleton of Teledyne has the single best operating and capital deployment record in American business." *Warren Buffett*

Bottom line, when it comes to building long term per share value for shareholders, Henry Singleton is one of the all-time greats.

What were Henry Singleton's greatest strengths?

Singleton was exceptional at both core jobs of a CEO:

- Operating the business
- Capital allocation

Singleton's overarching objective was to maximizing long term per share value for shareholders.

Corporate structure

A key part of Singleton's success was the corporate structure / operating model he set up at Teledyne:

- Operating businesses:
  - Decentralized
  - Entrepreneurial

- Capital allocation:
  - Centralized
  - Small head office

Does this structure look familiar? The inspiration for Berkshire Hathaway's corporate structure likely came from Henry Singleton and Teledyne. Fairfax also employs this same structure.

Operating businesses

Singleton was very good at operating businesses - putting in place the right structure, people and incentives.

Importantly, the focus of the operating businesses was on cash generation, especially when the company completed the acquisition phase of its growth in the late 1960's. This last point is critically important because optimizing cash feeds the 'sources of cash' part of capital allocation.

Capital allocation

In the rest of this post, we are going to focus on the greatest strength of Singleton - capital allocation - because it is not well understood. And because it perhaps offers great insight into how Fairfax operates today.

Singleton's Capital allocation framework

Singleton was a trailblazer when it came to capital allocation. What made Singleton stand out from peers at the time?

- Open minded/range - He was open to using all tools in the capital allocation toolbox (for both 'sources of cash' and 'uses of cash').
- Flexible - He was open minded. He adapted to changing circumstances.
- Rational/analytical - He used the right tool for the right job at the right time.
- Opportunistic/conviction - Big opportunities were exploited very aggressively (he had a temperament that allowed him to do this).
- Independent thinker/contrarian - He often did the opposite of what conventional wisdom suggested was the right thing to do at the time.
- Unconventional - It did not matter to him that Wall Street did not like (frowned on) some of his methods and the use of certain tools.

Control: it is important to note that Singleton was firmly in control of Teledyne. This control gave him the freedom to execute his unconventional approach to running Teledyne.

Shareholders' Equity - the genius of Henry Singleton

We are going to focus on what Henry Singleton is known for most - his aggressive/prolific management of the company's stock - both in issuing stock and buying it back.

Singleton followed a pretty simple playbook:

- When stock is overvalued - Aggressively issue stock and use it as currency to grow the business (buying other companies when they are available at much lower valuations).
- When stock is undervalued - Use the much higher cash flow from the business to aggressively buy back shares.

Singleton had two distinct phases:

1.) Aggressively issue Teledyne stock (1960 to 1968) - Executed at an average PE of 25x
- Allowed Teledyne to get much more back (value of companies being purchased) than what he was giving up (value of Teledyne's stock).
- Singleton bought 128 companies using Teledyne's stock; he massively expanded the size and scale of the company.

2.) Aggressively buy back Teledyne stock (1971 to 1984) - Executed at an average PE of 8x
- Allowed Teledyne to get much more back (value of Teledyne's stock) than what he was giving up (using cash in some other way).
- He bought back stock using tender offers (not open market purchases).
- **Reduced shares outstanding at Teledyne by 90% by the time he was done.**

Unlike today, in the 1970's buying back stock was viewed very negatively by Wall Street - it was viewed as a sign of weak/poor business prospects/management.

What really stands out with Singleton is:

- The scale in which he operated when executing a winning strategy - both the massive number of shares he issued and the massive number of shares he then repurchased. Each phase lasted/was executed over a full decade.
- The discipline he demonstrated - shares were only issued at a premium valuation and repurchased at a low valuation.

Singleton had an unfair advantage

'Good artists borrow. Great artists steal.' *Pablo Picasso/Steve Jobs*

What company did Singleton understand better than any other? Teledyne - his own company. He also understood the company much better than Mr. Market and Wall Street.

Singleton took Benjamin Graham's insight on Mr. Market and the stock market in general and applied a unique twist - he applied it to Teledyne's stock.

The end result was amazing per share value creation for long term shareholders.

Was Singleton taking advantage of Teledyne's shareholders?

Warren Buffett often talks about buybacks along moral lines - at least when it comes to Berkshire Hathaway and how the company thinks about its own shareholders. My view is this is more good marketing from Buffett than anything else.

Buffett loves it when companies he owns buy back a bunch of their own stock when it is undervalued - Apple is a great current example. And we know he thinks very highly of Henry

Singleton. In recent years, Buffett has relented and has started buying back Berkshire Hathaway stock in meaningful quantities.

The truth is long term shareholders of Teledyne made out exceptionally well - they made a fortune holding Teledyne stock over the decades.

Bottom line, shareholders' equity is an exceptionally important tool in the capital allocation toolbox that management teams can use to grow per share value for shareholders.

If it is such a good idea, why is it not used more?

The interesting thing is most management teams are terrible in their execution of this strategy. They tend to issue their own stock when it is trading at a low valuation and buy back their stock when it is trading at a high valuation. These activities destroy long term per share value for shareholders.

To put it bluntly, most companies don't utilize this strategy more aggressively because they are terrible at it.

What does all this have to with Fairfax?

Not all companies are terrible at executing this strategy. That is what we will explore in our next post.

Articles on Henry Singelton:

Twenty Punch Investments

https://www.twentypunchinvestments.com/p/henry-singleton-and-teledyne

A Case Study in Financial Brilliance - Teledyne by Leon Coopermam

https://fundamentalfinanceplaybook.com/wp-content/uploads/2019/02/leon-cooperman-case-study-henry-singleton-teledyne.pdf

Henry Singleton: A Capital Allocation Masterclass in Three Acts by Kingswell

https://www.kingswell.io/p/henry-singleton-a-capital-allocation

The Outsiders | William Thorndike | Talks at Google

https://youtu.be/D6h5bvxnBKk?si=Rlih4Tx6IR8xkbkS

Using Shareholders' Equity to Drive Per Share Value - Fairfax Takes a Page from the Singleton Playbook

July 31, 2024

> "History never repeats itself, but it does often rhyme." *Mark Twain*

In the previous post I did a short review of Henry Singleton. He has been an important influence/mentor to Fairfax. In this post we are going to try to connect some of the dots. We are going to focus on capital allocation and one tool in the capital allocation toolbox - shareholders' equity. And how, when it is used properly, it can build significant long term per share value for shareholders.

But remember… when comparing the present with the past we will never find an exact 'repeat.' That is not the point/objective of doing this exercise. However, if we look closely, we can find important examples of where the present does indeed 'rhyme' with the past. That, in turn, can help improve our understanding of Fairfax - what they are doing and what they might do in the future.

This post has been broken into the following 6 parts:

- Part 1: The big picture
- Part 2: A primer on shareholders' equity
- Part 3: Fairfax Financial - Shareholders' equity - A 38-year journey
    - Phase 1 - 1985 to 2017 - Building out the P/C insurance platform
    - Phase 2 - 2018 to Today - Optimizing the operating businesses and aggressively shrinking the share count
- Part 4: Two examples – Total return swaps (2020) and dutch auction (2021)
- Part 5: Has Fairfax continued to buy back its shares in 2024?
- Part 6: Summary

Part 1: The big picture

A CEO has two basic responsibilities:

- Operations (run the business)
- Allocate capital

When allocating capital, the basic choices available to the management team at Fairfax have been captured in the table below.

In this post, we are going to focus on one tool in the capital allocation toolbox - shareholders' equity - both as a source of capital (issuing stock) and as a use of capital (repurchasing stock).

Fairfax Financial - Capital Allocation Options	
Sources of Capital	**Uses of Capital**
Internal (access from the business)	**Internal (use in the business)**
1.) Cash flow from operations	1.) Organic business growth - Insurance hard market (grow float) - Non insurance
2.) Asset Sales / Spinoffs / IPO's - Insurance - Non insurance	2.) Acquisitions - Insurance (grow float) - Non insurance
External (access from others)	**External (return to others)**
3.) Raise new debt	3.) Pay down debt
4.) Issue equity - Issue stock - Take on minority partners	4.) Repurchase equity - Repurchase stock - Take out total return swaps - Take out minority partners
	5.) Pay a dividend

Part 2: A primer on Shareholders' equity

The playbook of how a management team can use shareholders' equity to drive long term per share value for shareholders is pretty simple:

- Issue stock when it is overvalued - and buy assets that are undervalued.
- Buy back stock when it is undervalued.
- Be aggressive at extremes (overvaluation and undervaluation).
- Keep doing both as long as conditions remain favourable.

There are two key reasons this strategy works so well:

- Exploit volatility: Mr. Market's behaviour can be very irrational at times - and it can persist for years.
- High certainty: The management team knows what the intrinsic value of the company is - it has a big information advantage over Mr. Market.

The proper execution of this strategy over time can lead to extraordinary results for long term shareholders. Henry Singleton taught us this when he ran Teledyne.

Part 3: Fairfax Financial - Shareholders' Equity - A 38-Year Journey

Let's review how Fairfax Financial has used shareholders' equity over their 38 year history to see what we can learn.

We will break our analysis into two time-frames:

- Phase 1 - 1985 to 2017 - Building out the P/C Insurance Platform
- Phase 2 - 2018 to today - Optimizing the Operating Businesses and Aggressively Shrinking the Share Count

_____

Phase 1 - 1985 to 2017 - Building Out the P/C Insurance Platform

In 1985, the year it was founded, Fairfax began its journey with 5 million shares outstanding.

From 1985 to 2017, Fairfax:

- Issued 29.5 million shares
- Repurchased 6.7 million shares

As a results, effective shares outstanding at the end of 2017 were 27.8 million (5 + 29.5 - 6.7) - they increased by a total of 22.8 million over the previous 32 years.

Over the first 32 years of their existence (from 1985 to 2017), share issuance was used aggressively as a **source of cash** - and this cash was used to grow Fairfax's global P/C insurance platform. From 1985 to 2017, Fairfax issued a total of 29.5 million shares. Shares were generally issued at a premium to book value (sometimes a significant premium). Proceeds were used to buy other P/C insurance companies trading at a much lower valuation. Bottom line, looking at share issuance in aggregate, Fairfax got good value.

Share buybacks have also been a meaningful **use of cash** for Fairfax. From 1985 to 2017, Fairfax repurchased a total of 6.7 million shares. Repurchases were 22% of issuance - over the years, for every 5 shares that were issued, Fairfax repurchased 1 share back. Share were generally repurchased when Fairfax's stock was trading at a discount/on sale. Like with share issuance, Fairfax got good value when they repurchased shares.

So, in general, Fairfax issued stock when its shares were trading at a high valuation and used the cash to buy P/C insurance companies that were trading at a much lower valuation. Fairfax also bought back modest amounts of stock at times when its shares were trading at a low valuation.

This looks like it was textbook application of the principals of what a management team should do.

<u>Is there a way we can actually measure how successful this strategy has been?</u>

Yes. We can look at the change in long term per share book value (BVPS).

From 1985 to 2017, Fairfax increased:

- the share count at a CAGR of 5.5%.
- common shareholders' equity at a CAGR of 25.8%.
- **BVPS at a CAGR of 19.5%.**

Using its stock to drive the growth of its P/C insurance platform resulted in enormous long term per share value creation for shareholders.

Fairfax - Measuring Long Term Per Share Value Creation for Shareholders						
	Effective Shares Out-standing	Common Shareholders' Equity US$ m	BVPS US$	Closing Share Price (C$)	Net Premiums Written US$ m	Invest-ments US$ m
1985	5	$8	$1.52	$3.25	$10	$24
2017	27.8	$12,476	$449.55	$669.34	$9,980	$39,255
32 yr CAGR	**5.5%**	**25.8%**	**19.5%**	**18.1%**	**24.1%**	**26.0%**

From Fairfax's 2017AR:

The table below shows the shares we have issued and retired over our history:

	Shares Issued	Shares Repurchased	Shares Outstanding	Reason for Issue
		(shares in millions)		
1985			5.0	
1986-90	2.3	1.8	5.5	Morden & Helwig
1991-95	3.8	0.4	8.9	Hamblin Watsa/Ranger/Lombard
1996-00	5.3	1.1	13.1	OdysseyRe/Sphere Drake/Crum & Forster/TIG
2001-05	5.5	0.8	17.8	Financial soundness
2006-10	4.3	1.6	20.5	Zenith/OdysseyRe minority
2011-15	2.2	0.5	22.2	Brit
2016	1.0	0.1	23.1	ICICI Lombard/Eurolife
2017	5.1	0.4	27.8	Allied World
Total	29.5	6.7	27.8	

Over our history, we have issued 29.5 million shares as we expanded Fairfax from net premiums written of $10 million to $10 billion (current run rate of $11.5 billion). During this period, we have also reduced our shares outstanding by 6.7 million, for a net increase of 22.8 million. As the table below shows, our shares outstanding have grown by 5.6x while net premiums written, investments and common equity have increased by 1,000x or more. Henry Singleton, at Teledyne, reversed this trend, as you know, and over the next ten years we expect to do the same – use our free cash flow to buy back our shares!

	1985	2017
Net premiums written	10	9,984
Net earnings	(1)	1,741
Investment portfolio	24	39,255
Common shareholders' equity	8	12,476
Shares outstanding *(millions)*	5.0	27.8

An important strategic change in 2017

With the purchase of Allied World in 2017, Fairfax officially completed the aggressive 32-year build out of their global P/C insurance platform. Moving forward, Fairfax would be focused on two things:

- Continue to do smaller bolt-on P/C insurance acquisitions.
- Optimize its existing insurance operations and investment portfolio.

Truth be told, Fairfax got to work optimizing its insurance operations back in 2011, when Andy Barnard was appointed President and COO to manage Fairfax's total insurance business. When it comes to investments, fixed income has always been a strength of Fairfax. The issue at Fairfax in 2017 was its equity portfolio - it was stuffed full of underperforming companies, many of which were significant cash drags (they were not delivering cash to Fairfax - they needed cash from Fairfax).

By optimizing the insurance operations and investment portfolio Fairfax would be able to improve the 'cash flow from operations,' the most important **source of cash**.

What was the company planning on doing with the future free cash flow?
In the 2017AR, Prem told investors what was to come - Fairfax intended to get much more aggressive with share buybacks.

> "Henry Singleton, at Teledyne, reversed this trend (of growing share count), as you know, and over the next ten years we expect to do the same - use our free cash flow to buy back our shares!"
>
> *Prem Watsa – Fairfax 2017AR*

At the time, Prem was laughed at (pretty loudly) for what he said.

Let's look at what has happened at Fairfax since then.

Phase 2 - 2018 to Today - Optimizing the Operating Businesses and Aggressively Shrinking the Share Count

What did Fairfax do?

2018-2023: Aggressively reduce the share count

Effective shares outstanding at Fairfax peaked at 27.75 million in 2017. Over the past 6 years (to December 31, 2023), Fairfax reduced effective shares outstanding by 4.75 million, or 17.1%, at an average cost of $484/share.

From 2018 to 2023, Fairfax was able to repurchase a significant number of shares at very low average prices. This is a great example of exceptional value creation by the management team at Fairfax.

Fairfax - Total Reduction In Share Count Last 6 Years				
US$ Date	Effective Shares Outstanding million	Share Reduction million	Avg Cost Per Share	Total Cost billion $
2017	27.75			
2018	27.2	0.51	$509	$0.261
2019	26.8	0.41	$464	$0.188
2020	26.2	0.66	$298	$0.195
2021	23.9	2.31	$490	$1.132
2022	23.3	0.54	$509	$0.275
2023	23.0	0.32	$764	$0.246
Total	**17.1%**	**4.75**	**$484**	**$2.298**

What does this do to the important per share metrics?

Here is Prem's slide from Fairfax's AGM in April 2024.

Fairfax has been Transformed Since 2017

	2017	2023	% Change
Shares outstanding *(millions)*	**27.8**	**23.0**	**-17%**
Per share	*($)*		
Gross premiums	499	1,256	152%
Float	826	1,525	85%
Investment portfolio	1,415	2,815	99%
Common shareholders' equity	450	940	109%
Re/insurance adjusted operating income (loss)	(8)	171	

Part 4: Two examples – Total Return Swaps (2020) and Dutch Auction (2021)

Before moving on, we are going to take a minute to review a couple of things Fairfax did in 2020 and 2021. **Because they provide some great insight into how Fairfax thinks about and executes capital allocation.**

Classic Fairfax - Turning Lemons into Lemonade

Fairfax's share price got historically cheap in 2020/2021. I won't get into the reasons as to why that happened (I have covered that topic in detail in many past posts). 2020 and 2021 was a great time

for Fairfax to buy back a meaningful amount of its stock. The problem Fairfax had at the time was they were cash poor.

What to do? Classic Fairfax - get creative.

Fairfax made two brilliant moves in late 2020 and 2021.

1.) Fairfax Total Return Swap

In late 2020/early 2021, Fairfax established positions in total return swaps giving it exposure to 1.96 million Fairfax shares at an average price of $373/share. Although not technically a buyback, establishing these positions serves as the next best thing. This investment gave Fairfax exposure to 7.5% of its effective shares outstanding (26.2 million at Dec 31, 2020). That was a massive position.

2.) Dutch Auction

In late 2021, Fairfax executed a dutch auction and repurchased 2 million Fairfax shares at $500/share. To fund the repurchase, Fairfax sold a 9.99% equity stake in their largest P/C insurance company, Odyssey Group, to CPPIB and OMERS for proceeds of $900 million. This was a wicked smart way to quickly source a significant amount of cash from trusted, external sources. In turn, this allowed Fairfax to capitalize on a short-term opportunity (share price trading at crazy low price).

Fairfax Announces US$1.0 Billion Substantial Issuer Bid and Sale of 9.99% Minority Stake in Odyssey Group

https://www.fairfax.ca/press-releases/fairfax-announces-us1-0-billion-substantial-issuer-bid-and-sale-of-9-99-minority-stake-in-odyssey-group-2021-11-17/

How have these two investments worked out?

1.) The FFH-TRS position is up $1.5 billion over the past 3.6 years (before carrying costs). This has turned into one of Fairfax's best ever investments.

Fairfax - Total Return Swap	FFH Share	TRS Market	Annual Increase in Value (US$)	
1.96 mill shares	Price	Value	Total	/Share
Q4 '20/Q1 '21	$373	$731	n/a	n/a
Dec 31, 2021	$492	$965	$233	$10
Dec 31, 2022	$594	$1,164	$200	$9
Dec 31, 2023	$921	$1,805	$640	$28
July 30, 2024	$1,153	$2,260	$455	$20
3.6 Year Gain in Value			**$1,529**	**$66**
Position put on Q4-2020 and Q1-2021; Avg cost = $373/sh.				

2.) Fairfax's book value is $945 at March 31, 2024. Buying back 2 million shares at $500/share only 2.5 years ago was a steal of a deal for Fairfax and its shareholders.

Both of these moves executed by Fairfax scream Henry Singleton. They were:

- Very creative - establishing TRS and selling 9.99% of Odyssey to external partners.
- Very rational - Fairfax's stock was trading at a historically low valuation.
- Highly opportunistic - seize the moment.
- Executed in scale. Both of these moves were of a significant size.
- Very unconventional - both were classic Fairfax moves.

Most impressively, these two deals were executed at a time when investors in Fairfax were literally 'freaking out.' But the management team at Fairfax was not 'freaking out.' Instead, the management team at Fairfax saw the opportunity and made two outstanding investments - **the temperament the senior management team displayed during these dark times shows, among other things, great character.** This should speak volumes to investors about the quality of the management team in place at Fairfax. This bodes well for the future.

It should also be noted that before Fairfax made either of these two investments, Prem told Fairfax shareholders very loudly that he thought Fairfax's shares were dirt cheap. In June of 2020, Prem purchased $149 million in Fairfax shares at an average price of $309/share.

Prem Watsa Acquires Additional Shares of Fairfax

https://www.fairfax.ca/press-releases/prem-watsa-acquires-additional-shares-of-fairfax-2020-06-15/

OK, let's circle around and get back on track.

Part 5: Has Fairfax continued to buy back its shares in 2024?

My guess is when Fairfax reports Q2 results later this week, effective shares outstanding will come in at less than 22.4 million at June 30, 2024. Fairfax is on track to reduce effective shares outstanding by 1 million in 2024. This is at a much higher pace than we have seen in recent years.

Why is the pace of buybacks picking up in 2024?

I can think of two reasons:

1.) Low valuation: Fairfax's stock continues to trade at a cheap valuation - its valuation is well below that of peers.

2.) Record free cash flow: Fairfax is now generating a record amount of free cash flow. It is coming from two sources:

- Record cash flow from operations (primarily operating income)
- Significant cash from asset sales

Since 2018, Fairfax has been working hard at optimizing its cash flow from operations. Importantly, the equity portfolio has been fixed. All three of Fairfax's economic engines are now performing at a high level at the same time - and they have never been positioned better for the future:

- Insurance
- Investments - fixed income
- Investments - equities

As a result, Fairfax is generating record free cash flow. And this looks set to continue in the coming years.

Summary

From 1985 to 2017, Fairfax was focussed on building out its global P/C insurance footprint. To fund this growth, Fairfax used its stock - usually issued when the stock was trading at a premium valuation. In 2017, with the Allied World acquisition, Fairfax was officially done building out its global P/C platform. The focus of the company shifted to optimizing the cash flow from the insurance operations and investment portfolio. From 2018 to today, Fairfax has reduced effective shares outstanding by more than 19%. Fairfax was very opportunistic and shares were repurchased at a very low valuation.

Over the past 38 years, Fairfax has put on a clinic on how to use shareholders' equity to build long term per share value for shareholders. Henry Singleton would be proud of what they have been able to accomplish.

But the Fairfax story is still being written. Free cash flow at Fairfax has exploded over the past three years. **The size and certainty of future earnings have both markedly improved at Fairfax in recent years.** Buffett teaches us that certainty is the key variable to properly value an investment. At the same time, Fairfax's management team is best in class among P/C insurance companies - measured though the growth in book value per share over the past 5 years.

Fairfax continues to trade at a significant discount to P/C insurance peers. Given what we know, this makes no sense. And if we know it, I think it is safe to say that Fairfax knows it.

As a result, like Henry Singleton, it would not surprise me to see Fairfax continue to buy back a meaningful amount of Fairfax's stock in the coming years. After all, Prem told us what the plan was all the way back in 2017.

PS: This post is long. Thanks for hanging in there and making it to the end. As I was writing, it became clear to me that the influence of Henry Singleton on Fairfax goes far beyond just shareholders' equity (issuing stock at a premium valuation and then buying it back at a low valuation). Henry Singleton's influence on Fairfax was likely much bigger - how to structure the company, how to run the operations (focus on cash generation) and how to think about capital allocation (be rational, use all the tools in the toolbox, be creative, go big, don't be afraid to be unconventional etc). And to focus on building long term per share value for shareholders.

Why Do Most P/C Insurance Companies Ignore the Lesson of Berkshire Hathaway and Only Invest in Bonds?

July 22, 2024

All P/C insurance companies have two engines to drive earnings/business results over time:

- Insurance
- Investments

Insurance

Pretty much all P/C insurance companies try and do the same thing with their insurance operations - they try and generate an underwriting profit. Some are better at it than others. The combined ratio communicates how a company's insurance business is performing.

Investments

Pretty much all P/C insurance companies generally do the same thing with their investment portfolio - they invest it primarily in bonds. The average yield on the investment portfolio communicates how a company's investments are performing.

Investors

As a result, it is a pretty simple process for investors to evaluate most insurance companies.

Warren Buffett

Warren Buffett screwed everything up back in 1967 when Berkshire Hathaway purchased National Indemnity, a P/C insurance company.

How did Buffett screw things up?

Buffett knew something that apparently no one else at the time knew: equities earn a much higher return over time than bonds. So, after he bought National Indemnity, he began to put some of its investment portfolio into equities.

And what was the result?

Magic. Excess returns + compounding + time = exponential growth. And that is what happened to Berkshire Hathaway's earnings and stock price.

It was like Buffett had found the golden goose.

Capitalism

We all know how capitalism works. When someone discovers a better mousetrap – and begins earning outsized profits - everyone else will rush in and copy the better business model. And quickly compete the outsized returns away.

And that is what happened. All the big P/C insurance companies began investing a part of their investment portfolio into equities and their returns over time improved markedly. And their investors made out like bandits.

EXCEPT THAT IS NOT WHAT HAPPENED.

Almost all P/C insurance companies did not copy what Warren Buffett was doing at Berkshire Hathaway.

Why not?

Are other P/C insurance companies run by stupid people?

The fly in the ointment - Wall Street

Volatility

Efficient Market Hypothesis and Modern Portfolio Theory

When it comes to equities, Wall Street says volatility is the same thing as risk. Stock returns ARE volatile (when calculated over a short time frame like one year). So, Wall Street decided this also meant that stocks were also very risky - and therefore more likely to go down in value.

Of course, this is garbage.

Here is what Warren Buffett had to say about risk at the BRK's AGM in 1994:

> "We do define risk as the possibility of harm or injury. And in that respect we think it's inextricably wound up in your time horizon for holding an asset. I mean, if your risk is that if you intend to buy XYZ Corporation at 11:30 this morning and sell it out before the close today, in our view that is a very risky transaction. Because we think 50 percent of the time you're going to suffer some harm or injury. If you have a time horizon on a business, we think the risk of buying something like Coca-Cola at the price we bought it at a few years ago is essentially so close to nil, in terms of our perspective holding period. But if you asked me the risk of buying Coca-Cola this morning and you're going to sell it tomorrow morning, I say that is a very risky transaction." *Warren Buffett*

Short term focus

Most P/C insurance companies are publicly traded companies. They are beholden to what Wall Street wants.

Wall Street wants companies to hit quarterly earnings estimates - if a company misses, their stock usually gets punished. If this happens too many times, the CEO likely loses his job.

Incentives matter. Most CEO's want to keep Wall Street happy. As a result, they avoid volatility like the plague. The insurance business is volatile enough. Adding volatility to the investment side of the business is a bridge too far for most P/C insurance executives. So, they have no interest in investing in equities.

The odd ducks

Well, there are a few odd ducks that decided to follow Warren Buffett's lead:

- Markel
- Fairfax Financial

What allowed these misfits to thumb their nose at Wall Street?

Ownership structure

Warren Buffett can do what he wants with Berkshire Hathaway because he is in control of the company.

It just so happens the other two companies also have controlling shareholders:

- Markel - Markel family
- Fairfax Financial - Prem Watsa

Update: the Markel family no longer is the controlling shareholder of Markel. They have been aggressively selling their shares for years and now own a little more than 1% of the company. And guess what? Markel is no longer able to thumb its nose at Wall Street. Not surprisingly, the company is currently undergoing a 'strategic review.' It will be interesting to see how Markel's business model evolves in the coming years.

Long term focus

This ownership structure allows each of these companies to focus on long term value creation for their shareholders.

Higher lumpy returns (investing in equities) are preferred to lower smooth returns (investing exclusively in bonds).

This can't be right. This sounds too easy.

How have these 3 companies performed over time?

The long-term performance of each of these 3 companies (since inception for each) has been epic.

Comparing Results Since Inception - Compound Annual Growth Rates since Inception						
	Since Inception	Years	CAGR BVPS	Share Price	S&P500 Index	
Berkshire Hathaway	1965 to 2023	58	18.3%	19.8%	10.2%	Includes dividends
Markel	1986 to 2023	37	16.1%	14.9%		
Fairfax Financial	1985 to 2023	38	18.9%	18.3%	11.0%	Share price = US$

How did they achieve such impressive results?

Their P/C insurance business was better than average (much better in the case of Berkshire Hathaway).

But their outperformance overwhelmingly came from their investment results and their capital allocation decisions.

What about today?

A fork in the road.

Berkshire Hathaway was so successful at investing in equities that it decided it wanted to own entire companies. This begat more success. Over the past 20 years, Berkshire Hathaway has morphed into a very successful conglomerate, with P/C insurance now only one part of a much larger company.

Markel is doing its best to follow in Berkshire Hathaway's footsteps and become a conglomerate itself.

What about Fairfax Financial?

Fairfax appears to have little interest in becoming a conglomerate like Berkshire Hathaway (notwithstanding their just announced purchase of Sleep Country).

In fact, today, Fairfax's business model looks unique in the P/C insurance industry.

Their uniqueness is not on the insurance side of things. Here they have built one of the finest P/C insurance operations anywhere. They have a wonderful global platform. And they have forged a culture of strong underwriting discipline. This is similar to other well-run P/C insurance companies.

Fairfax's uniqueness comes from how they approach capital allocation. Their approach is very different from traditional P/C insurance companies. And today it is also very different from the approach employed by both Berkshire Hathaway and Markel.

When it comes to capital allocation, Fairfax is breaking new ground. That is what we will explore in the next post.

How Fairfax Does Capital Allocation Is Different From All Other P/C Insurance Companies

July 22, 2024

Capital allocation: Traditional P/C insurance companies

At most P/C insurers, capital allocation is handled in a very traditional and straight forward manner. The basic options are captured in the table below.

P/C Insurance - Traditional Capital Allocation Options

Sources of Capital	Uses of Capital
Internal (access from the business)	**Internal (use in the business)**
1.) Cash flow from operations	1.) Organic business growth
2.) Asset Sales	2.) Acquisitions
External (access from others)	**External (return to others)**
3.) Raise new debt	3.) Pay down debt
4.) Issue equity	4.) Repurchase equity
	5.) Pay a dividend

Berkshire Hathaway & Markel

At Berkshire Hathaway and Markel, capital allocation is focussed on building long term shareholder value. But some capital allocation options are not used and others are frowned upon:

- Assets are (usually) not sold. Buy and hold (ideally forever) is the goal. Therefore, this source of capital is generally not available.
- Equity is used in very limited way.
    - Rarely is equity issued as a source of capital (looking at the past 10 years).
    - Equity is used modestly used as a use of capital (share buybacks).
- Neither company pays a dividend.

BRK & MKL - Capital Allocation Options

Sources of Capital	Uses of Capital
Internal (access from the business)	**Internal (use in the business)**
1.) Cash flow from operations	1.) Organic business growth
~~2.) Asset Sales~~	2.) Acquisitions - Insurance - Non insurance
External (access from others)	**External (return to others)**
3.) Raise new debt	3.) Pay down debt
4.) Issue equity	4.) Repurchase equity
	~~5.) Pay a dividend~~

Fairfax Financial

Setting the table: The most important source of capital is 'cash flow from operations'. Fairfax is generating a record amount of cash flow from operations - and this record amount is expected to continue (and grow) in the coming years.

Unlike traditional P/C insurance companies and Berkshire Hathaway and Markel, Fairfax uses all the capital allocation options at its disposal. But there is even more. Fairfax is finding new and innovative ways to allocate capital. They are doing some things that haven't been seen from a P/C insurance company before. Like bringing minority equity partners on board when making large P/C insurance acquisitions.

Fairfax has taken Warren Buffett's original idea and made it even better: unconstrained capital allocation. The restaurant menu at Fairfax is stocked with choices:

- Sources of capital.
- Uses of capital.
- Internal.
- External.

When it comes to capital allocation, Fairfax's top priority is to be securely financed. After that, the goal is to allocate capital in a way that it results in the greatest long term per share value creation for shareholders.

The key with this approach is to be:

- Open minded.
- Flexible.
- Creative.
- Opportunistic.
- Conviction - go big.

With this capital allocation frame-work you take what Mr. Market gives you. And that is what Fairfax has been doing.

Fairfax Financial - Capital Allocation Options	
Sources of Capital	**Uses of Capital**
Internal (access from the business)	**Internal (use in the business)**
1.) Cash flow from operations	1.) Organic business growth - Insurance hard market (grow float) - Non insurance
2.) Asset Sales / Spinoffs / IPO's - Insurance - Non insurance	2.) Acquisitions - Insurance (grow float) - Non insurance
External (access from others)	**External (return to others)**
3.) Raise new debt	3.) Pay down debt
4.) Issue equity - Issue stock - Take on minority partners	4.) Repurchase equity - Repurchase stock - Take out total return swaps - Take out minority partners
	5.) Pay a dividend

Delivering a master-class in capital allocation.

Here are some recent examples of what Fairfax has done:

- More than doubled the size (per share) of the P/C insurance business (NPW) over the past 5 years from $442/share in 2018 to $996/share in 2023.
- In late 2020/early 2021, purchased total return swaps - getting exposure to 1.96 million Fairfax shares at $373/share. This investment has increased in value by $1.5 billion over the past 3.5 years.
- In late 2021, via dutch auction, bought back 2 million Fairfax shares at $500/share. At March 31, 2024, Fairfax's book value was $945/share.
- In late 2021, sold $5.2 billion in corporate bonds and shortened average duration of fixed income portfolio to 1.2 years - which shielded Fairfax's balance sheet from billions in losses when interest rates spiked in 2022/2023.
- In 2022, sold the pet insurance business and realized a $1 billion gain after-tax.
- In 2022, sold Resolute Forest Products for $626 million (plus $183 million CVR) at the peak of the lumber market.
- In 2023, took out majority partner (KIPCO) and increased ownership in Gulf Insurance Group from 44% to 90% for total consideration of $740 million, securing Fairfax's future in growing MENA region.
- In late 2023, extended the average duration of fixed income portfolio to about 3 years, locked in record interest income of $2 billion/year for the next 3 or 4 years.
- In January 2024, increased dividend by 50% to $15/share.
- In June 2024, Fairfax's P/C insurance co. in India, Digit, completed its successful IPO.
- In July 2024, sold Stelco (pending approvals) for consideration of $666 million, an 87% premium to where the stock had been trading.

The list above is just a start. It really is amazing what Fairfax has been able to accomplish over the past 5 years.

What really stands out is the number of tools - the breadth of options - that they have in their capital allocation toolkit today. They are proficient at using all of the tools. And they are using all of them:

- Organic growth
- Acquisitions
- Asset sales
- IPO
- Stock buybacks

And look at the size/magnitude of the activities - many were +$1 billion in impact. The per share value creation for shareholders has been impressive.

Importantly, Fairfax is not trying to clone someone else - like Berkshire Hathaway. Instead, Fairfax is now blazing their own trail. They are focussed on doing what they are really good at.

Fairfax looks like a star athlete that is just entering their prime. They have been building toward this moment for 38 years.

Capital Return and Total Payout Yield

May 2026

Since the beginning of the hard market in late 2019, Fairfax's primary capital allocation priority has been supporting the organic growth of its insurance operating companies. A close second has been share repurchases, reflecting management's view that Fairfax's shares were materially undervalued.

With the insurance hard market now moderating and Fairfax's stock still trading below intrinsic value, share buybacks have naturally become the company's top capital allocation priority.

Fairfax returns capital to shareholders in two ways:

- Cash dividends
- Share repurchases

While the dividend remains modest, Fairfax has been highly active on the buyback front in recent years.

Total Payout Yield

Total payout yield measures the percentage of earnings a company returns to shareholders over a given period, typically 12 months. It combines both dividends and share repurchases and is generally viewed as a shareholder-friendly use of capital.

Total payout yield = dividend yield + buyback yield

- Dividend yield = dividend per share ÷ average share price
- Buyback yield = reduction in effective shares outstanding ÷ average shares outstanding

Fairfax's total payout yield in 2025 was approximately 4.7%:

- Dividend yield: ~0.9%
- Buyback yield: ~3.8%

This represents a strong level of shareholder return, with the majority delivered through share repurchases.

Dividends: Modest, Conservative and Sustainable

Update: May 4, 2026

Like many other P/C insurers, Fairfax pays a modest dividend:

The dividend is paid in one annual instalment in January of each year.

Dividend history:

- 2001: Initiated at C$1.00/share.
- 2011: Increased to US$10/share
- 2024: Increased to US$15/share

Current dividend yield:

- 0.92% yield ($15/share price of $1,628 at May 4, 2026).

Is the dividend secure?

Yes – Fairfax's dividend payout ratio is a very low 7.2%.

- Net earnings attributable to shareholders of Fairfax was $4.77 billion in 2025.
- Fairfax paid dividends on common shares of $343.6 million in 2025.

Below are a couple of quotes from past annual reports.

2023 Annual Report

"Given Fairfax's substantial growth since it inaugurated a US$10 per share annual dividend 14 years ago, and given Fairfax's current position of foreseeing strong earnings for the next few years based on insurance company underwriting income, locked-in interest and dividend income and income from associates, we felt it was appropriate to raise our annual dividend this year to US$15 per share, and we believe that this should be a sustainable level," said Prem Watsa, Chairman and Chief Executive Officer of Fairfax. *Fairfax Press Release Jan 3, 2024*

2022 Annual Report

Prem reminds investors to include dividends when they calculate total returns.

> "As expected, we maintained our dividend of $10 per share in 2022 and used our excess cash flow to buy back 387,790 shares in the market. Since we began paying cash dividends, we have paid cumulative dividends of $3.4 billion or $152 per share. Our book value per share would have been $152 per share or 23% higher if we had retained all our earnings. Don't forget the dividends in your return calculation!" *Prem Watsa - Fairfax 2022AR*

2011 Annual Report

In 2011, the dividend was increased significantly to $10/share.

> "Given our results for 2010, our significant holding company cash and marketable securities position, the availability to us of the free cash flow of our insurance and reinsurance companies now that our largest companies are 100% owned, and our strong and conservative balance sheet, in early 2011 we paid a dividend of $10 per share (an extra $8 per share in excess of our nominal $2 per share). The amount above the nominal amount for any year will reflect the prevailing circumstances." *Prem Watsa Fairfax - 2010AR*

2000 Annual Report

In 2000, the dividend was initiated – at the same time Prem's salary was fixed at C$600,000/year.

> "This brings me to my own compensation arrangements. For many years now I have felt that as a controlling shareholder involved in the management of the company, my compensation should be closely linked to all shareholders. So from 2000 onwards, my compensation will be a fixed salary of $600,000 with no bonuses. This compensation will not increase annually, and if 1999/2000 is repeated, could decrease!! However, to make sure that my family survives, Fairfax will examine instituting a dividend – yes, a modest dividend – in 2001 at an annual rate of $1 or $2 per share. Going forward, the only difference between me and you, our shareholders, will be my salary of $600,000 – which based on recent performance, many of you may think is too high! While the payment of a modest dividend results in double taxation to most of you and is not as economically efficient as retaining all our profits and compounding at high rates of return (as we have done for the past 15 years), this was the only way I could think of to bring my compensation in line with your interests." *Prem Watsa – Fairfax 2000AR*

Share Buybacks – Theory (Warren Buffett) and A Real World Example (Fairfax)

May 4, 2026

The Big Picture

Over the long term, three factors drive stock returns:

- Earnings
- Valuation multiple
- Shares outstanding

The first two get most of the attention. The third — shares outstanding — is often overlooked, even though it can be a powerful driver of per-share value creation.

Capital Allocation Matters

Capital allocation is management's most important job, and share buybacks are one of the most effective tools available. When executed properly — at attractive prices and over long periods of time — buybacks can create enormous value for shareholders.

Among all capital allocation options, buybacks offer one of the highest levels of certainty. High certainty generally means lower risk.

As Warren Buffett wrote in Berkshire Hathaway's 1984 Annual Report:

> "When companies with outstanding businesses and comfortable financial positions find their shares selling far below intrinsic value in the marketplace, no alternative action can benefit shareholders **as surely** as repurchases." *Warren Buffett – Berkshire Hathaway 1984AR*

Shareholder Friendly Management

It is counterintuitive, but for long-term shareholders a low share price can actually be a gift — if the company is aggressively repurchasing shares. This is especially true when the discount persists for years.

Buffett highlighted two major benefits.

1. Higher Per-Share Intrinsic Value

This is straightforward arithmetic. When a company repurchases undervalued shares, the ownership stake of remaining shareholders increases. Intrinsic value per share rises immediately.

2. A Signal of Shareholder-Friendly Management

This second benefit is more subtle — and often underappreciated.

When management consistently repurchases stock below intrinsic value, it signals disciplined, shareholder-oriented capital allocation rather than empire building. Over time, investors reward this behavior with a higher valuation multiple.

Buffett explained it this way in Berkshire Hathaway's 1984 Annual Report:

> "The companies in which we have our largest investments have all engaged in significant stock repurchases at times when wide discrepancies existed between price and value. As shareholders, we find this encouraging and rewarding for two important reasons - one that is obvious, and one that is subtle and not always understood. The obvious point involves basic arithmetic: major repurchases at prices well below per-share intrinsic business value immediately increase, in a highly significant way, that value. When companies purchase their own stock, they often find it easy to get $2 of present value for $1. Corporate acquisition programs almost never do as well and, in a discouragingly large number of cases, fail to get anything close to $1 of value for each $1 expended.
>
> "The other benefit of repurchases is less subject to precise measurement but can be fully as important over time. By making repurchases when a company's market value is well below its business value, management clearly demonstrates that it is given to actions that enhance the wealth of shareholders, rather than to actions that expand management's domain but that do nothing for (or even harm) shareholders. Seeing this, shareholders and potential shareholders increase their estimates of future returns from the business.
>
> "This upward revision, in turn, produces market prices more in line with intrinsic business value. These prices are entirely rational. **Investors should pay more for a business that is lodged in the hands of a manager with demonstrated pro-shareholder leanings than for one in the hands of a self-interested manager marching to a different drummer...**"
>
> *Warren Buffett – Berkshire Hathaway 1984AR*

Fairfax's Buyback Philosophy

Prem Watsa laid out Fairfax's long-term buyback strategy in the company's 2018 Annual Report:

> "…we are focused on buying back our shares over the next ten years as and when we get the opportunity to do so at attractive prices. Henry Singleton from Teledyne was our hero as he reduced shares outstanding from approximately 88 million to 12 million over about 15 years." *Prem Watsa – Fairfax 2018AR*

Fairfax approaches buybacks exactly like a value investor:

- Buy shares when they are cheap
- "Back up the truck" when they are really cheap

What Has Fairfax Actually Done?

2015–2017: Aggressive Expansion of P/C Insurance

Fairfax issued shares to fund the rapid expansion of its international P/C insurance operations.

- Effective shares outstanding increased by 6.57 million shares
- Average issuance price: approximately $462 per share
- Effective shares outstanding peaked at 27.75 million in 2017

2018–2026: Aggressive Buybacks

Beginning in 2018, Fairfax pivoted to large-scale share repurchases and has bought back stock every year since.

Over the past 8.25 years:

- Effective shares outstanding declined by 7.13 million shares
- Total reduction: 25.7%
- Average repurchase price: approximately $785 per share
- Effective shares outstanding (March 31, 2026): 20.62 million

Fairfax spent approximately $5.6 billion repurchasing stock during this period — its single largest investment. As a result, the share count has fallen to levels last seen in 2010.

Fairfax - Effective Common Shares Outstanding – 8.25-Year Change

Dec 31	m	Annual Change		Cost	
2017	27.75	n/a	n/a	Total $	Per Share
2018	27.24	-0.51	-1.8%	$261	$509
2019	26.83	-0.41	-1.5%	$189	$464
2020	26.18	-0.65	-2.4%	$195	$298
2021	23.87	-2.31	-8.8%	$1,132	$490
2022	23.33	-0.54	-2.3%	$275	$509
2023	23.00	-0.32	-1.4%	$246	$764
2024	21.67	-1.33	-5.8%	$1,574	$1,179
2025	20.86	-0.81	-3.7%	$1,333	$1,641
Q1-2026	20.62	-0.23	-1.1%	$391	$1,684
8.25-Year Change		**-7.13**	**-25.7%**	**$5,596**	**$785**

Did Fairfax Get Good Value?

Absolutely.

Current metrics:

- Book value per share: $1,250 (March 31, 2025)
- Share price: $1,625 (May 4, 2026)
- Intrinsic value is well above book value

Fairfax reduced its share count by 25.7% at an average repurchase price of approximately $785 per share — a substantial discount to book value. Importantly, the company repurchased shares aggressively while simultaneously expanding its core insurance business.

Net Premiums Written (NPW)

- 2017: $10.0 billion ($353 per share)
- 2025: $26.3 billion ($1,261 per share)

Growth from 2017 to 2025:

- Total NPW growth: 163%
- Per-share NPW growth: 257%

Fairfax walked and chewed gum at the same time. Buybacks materially amplified per-share growth.

This is elite capital allocation.

Is Fairfax Done Buying Back Shares?

Current valuation:

- Share price: approximately $1,628 (May 4, 2026)
- Book value: approximately $1,250 (March 31, 2026)
- P/BV: approximately 1.30
- ROE: averaging in the high teens in recent years

Despite Fairfax's strong operating performance, the stock still appears very cheap.

Importantly, book value excludes a meaningful amount of hidden value that has accumulated over the past five years. One obvious example is the excess of fair value over carrying value of non-insurance associate and consolidated holdings:

- Excess of FV over CV: $3.9 billion (at March 31, 2026)
- Per share: approximately $189 before tax

And this is only one source of hidden value on Fairfax's balance sheet.

As a result, Fairfax is cheaper than it appears based solely on book value.

I also expect the stock to remain undervalued for some time. Fairfax is still underfollowed, misunderstood, and largely ignored by many investors and analysts. Most still do not fully appreciate how much the company's business model and earnings power have changed over the past five years. Or how well the company is executing.

That likely changes over time.

Fairfax has now delivered outstanding results for five consecutive years. If it continues compounding capital at above-average rates of return over the next five years, it will build a full decade-long track record. That will resonate much more strongly with investors and likely lead to a more appropriate valuation.

In the meantime, a persistently undervalued stock is a tremendous advantage for long-term shareholders. It allows Fairfax to continue repurchasing shares at attractive prices.

That is an excellent setup for long-term owners.

Bottom Line

Over the past 8.25 years, Fairfax Financial Holdings has executed a textbook, Henry Singleton-style — Buffett-approved — buyback strategy:

- Repurchased aggressively when deeply undervalued
- Created enormous per-share value
- Continued growing the core insurance business at the same time

This is what exceptional capital allocation looks like.

It is also a clear signal that Fairfax is being managed with a strong shareholder orientation.

One More Thing: Fairfax's Total Return Swaps

Fairfax also holds total return swaps (TRS) on its own stock. The position was established in late 2020/early 2021 at an average cost of approximately $373 per share. The initial position was 1.96 million shares and currently stands at 1.76 million shares. (The position was reduced by approximately 200,000 shares in Q4 2024 when Fairfax purchased and retired shares from the counterparty.)

Over the past 5.33 years, the TRS-FFH position has increased in value by roughly $2.4 billion before carrying costs. It has become one of the most successful investments Fairfax has ever made. Some investors view the TRS position as a form of synthetic buyback.

Including the impact of the TRS position:

- Effective shares retired (8.25 years): 32.0%
- Average price: approximately $704 per share

Yes — that is absurdly good capital allocation.

For Fun, Let's Add In The Total Return Swap Position	Shares 'Purchased'		Total Cost $ m	Avg Cost Per Share
Reduction in Effect Shares	7.13		$5,596	$785
FFH - Total Return Swaps	1.76		$656	$373
Total Shares 'Purchased'	**8.89**	**32.0%**	**$6,253**	**$704**

Are Buybacks Bad for Workers or Society?

In recent years, politicians have attacked stock buybacks.

Buffett addressed this directly in Berkshire's 2022 Annual Report:

"A very minor gain in per-share intrinsic value took place in 2022 through Berkshire share repurchases as well as similar moves at Apple and American Express, both significant investees of ours. At Berkshire, we directly increased your interest in our unique collection of businesses by repurchasing 1.2% of the company's outstanding shares. At Apple and Amex, repurchases increased Berkshire's ownership a bit without any cost to us.

"The math isn't complicated: When the share count goes down, your interest in our many businesses goes up. Every small bit helps if repurchases are made at value-accretive prices. Just as surely, when a company overpays for repurchases, the continuing shareholders lose. At such times, gains flow only to the selling shareholders and to the friendly, but expensive, investment banker who recommended the foolish purchases.

"Gains from value-accretive repurchases, it should be emphasized, benefit all owners – in every respect. Imagine, if you will, three fully-informed shareholders of a local auto dealership, one of whom manages the business. Imagine, further, that one of the passive owners wishes to sell his interest back to the company at a price attractive to the two continuing shareholders. When completed, has this transaction harmed anyone? Is the manager somehow favored over the continuing passive owners? Has the public been hurt?

"When you are told that all repurchases are harmful to shareholders or to the country, or particularly beneficial to CEOs, you are listening to either an economic illiterate or a silver-tongued demagogue (characters that are not mutually exclusive)."

Warren Buffett - Berkshire Hathaway 2022AR

Shares Outstanding – Effective and Diluted

March 12, 2026

Fairfax's share count tells an important part of the company's capital allocation story.

Over the past 15 years, two major trends stand out:

- 2013 to 2017: share count increased as Fairfax funded a significant international expansion in property and casualty insurance.
- 2018 to 2025: share count declined sharply as Fairfax repurchased shares aggressively at prices well below intrinsic value.

As a result, Fairfax's share count is now approaching 2013 levels — even though the company itself is much larger, more diversified, and more profitable than it was back then.

That decline in share count has materially boosted per-share results, especially:

- earnings per share (EPS)
- book value per share (BVPS)

But there is an important wrinkle.

Diluted shares outstanding have not fallen nearly as quickly as basic shares outstanding.

Why? Because Fairfax has been buying back shares aggressively while also using stock-based compensation programs to encourage long-term employee ownership.

That distinction matters for investors.

Why investors should care

For Fairfax shareholders, share count is not just an accounting detail. It directly affects per-share value.

If the share count falls, each remaining share owns a larger piece of the business. That lifts per-share measures like EPS and BVPS.

But not all share counts tell you the same thing.

- Basic shares tell you how many shares economically participate in the business today.
- Diluted shares tell you how many shares could participate in the future after stock awards vest.

Both matter. But they answer different questions.

Basic, effective, and diluted shares

Basic shares outstanding

Basic shares outstanding are the shares currently issued and outstanding, excluding treasury shares.

Basic shares outstanding = issued shares − treasury shares

These are the shares currently entitled to the company's earnings and book value.

For most practical purposes, this is the current economic share count.

Effective shares outstanding

Investors sometimes use the term effective shares outstanding to mean the share count that reflects the actual economic ownership of the business today.

At Fairfax, effective shares are essentially the same as basic shares outstanding.

That is because treasury shares have already been removed from the outstanding share count. They do not currently participate in earnings or book value.

So when analyzing Fairfax:

Effective shares ≈ basic shares outstanding

This is the share count that should be used when thinking about book value per share.

Diluted shares outstanding

Diluted shares outstanding include not only current shares outstanding, but also shares that may be issued in the future under stock-based compensation plans and other equity-linked arrangements.

These can include:

- restricted share awards
- RSUs
- other share-based compensation

Diluted shares are therefore higher than basic shares because they reflect the potential future share count.

This is why diluted shares are used in calculating EPS.

Why Fairfax's diluted shares have not fallen as quickly

The answer lies in Fairfax's compensation programs.

Fairfax has been repurchasing shares aggressively, which reduces basic shares outstanding.

At the same time, Fairfax grants stock-based awards to employees that vest over time. These awards are included in diluted shares outstanding before they fully vest.

So the math works like this:

- buybacks reduce basic shares
- unvested stock awards keep diluted shares elevated

That is why diluted shares have not been falling like the basic share count.

It is also worth noting that the increase in treasury shares over the past decade largely reflects the growth of the organization itself. As Fairfax expanded globally and added employees, the company accumulated additional treasury shares to support its stock-based compensation programs.

Over the past nine years, Fairfax has spent about $155 million per year on average purchasing shares for treasury to support these programs.

Fairfax's stock-based compensation is different from most companies

This is where Fairfax stands apart.

At many companies, stock-based compensation is a source of ongoing dilution because new shares are issued to employees year after year. Existing shareholders end up paying the price through a steadily rising share count.

Fairfax's approach is different.

Instead of issuing new shares, Fairfax generally buys shares in the open market and holds them in treasury. When employee awards vest, those shares are reissued from treasury.

That distinction matters.

Economically, Fairfax is not printing new shares out of thin air. It is using cash to buy stock in the market and then using those shares as compensation.

That makes Fairfax's stock-based compensation look much more like cash compensation delivered in stock form than the typical Silicon Valley model of endless dilution.

What Prem says

Prem Watsa explained the philosophy clearly in Fairfax's 2025 Annual Report:

> "We continue to encourage all our employees to be shareholders of Fairfax. We think it will be a great investment for them over the long term and great for the company to have our employees as shareholders in the company."

He also described how the executive bonus program works:

> "As part of that initiative, close to 10 years ago we decided to have a general principle that our annual bonuses to senior executives across the company would be awarded 50% in cash and 50% in Fairfax shares that vest in five years."

And importantly:

> "As these bonus shares are awarded, the company buys the shares in the market … and they are recorded as treasury shares… As the shares are vested and or exercised, the shares are then reissued and come out of treasury shares and back into shares outstanding."

That is an important point for investors:

Fairfax is buying the shares in the market first.

That reduces the risk of the kind of structural dilution often seen elsewhere.

The two key programs

1. Executive annual bonus program

Senior executives receive annual bonuses:

- 50% in cash
- 50% in Fairfax shares
- with a 5-year vesting period

This structure encourages long-term thinking and ties compensation to the long-run performance of Fairfax stock.

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2. Employee Stock Ownership Plan

Fairfax also has a broad employee stock ownership plan available to most employees.

Employees may allocate up to:

- 10% of salary into Fairfax shares

The company then matches:

- 30% automatically
- up to an additional 20% if performance targets are met, primarily underwriting profitability

This is not just an executive perk. It is a broad ownership program designed to make employees think like owners.

That matters culturally.

Why this can benefit long-term shareholders

Stock-based compensation often deserves skepticism. In many companies, it is overused, poorly structured, and highly dilutive.

But Fairfax's system has several features that make it more shareholder-friendly.

1. It aligns employees with shareholders

Employees become owners. Their upside is tied to Fairfax's long-term per-share performance.

That is especially important in a decentralized organization where culture and capital allocation discipline matter.

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2. It improves retention

Long vesting periods create an incentive for talented employees and managers to stay.

That matters at Fairfax, where long-term underwriting discipline, investment judgment, and operating autonomy are core advantages.

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3. It is a real expense

Fairfax's stock-based compensation is not free. It runs through compensation expense.

So the cost is already reflected in earnings.

This is a crucial point. Investors should not pretend the compensation has no cost. But neither should they treat it as if Fairfax is simply handing away stock at no economic sacrifice.

Fairfax is paying employees, and part of that pay is delivered in stock purchased with cash in the open market.

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4. It may reflect smart capital allocation

An underappreciated feature of Fairfax's approach is timing.

Over the years, Fairfax appears to have built a meaningful treasury stock position when its shares were available at attractive prices. If that is what happened, then management was not only funding compensation programs — it was also allocating capital intelligently.

In that case, treasury shares may represent a stockpile built at favorable prices for future employee compensation.

That is very different from careless dilution.

So which share count should investors use?

For book value per share:

Use basic/effective shares outstanding

Why? Because unvested awards are not yet outstanding shares. They do not currently participate in book value.

For earnings per share:

Use diluted shares outstanding

Why? Because EPS is meant to capture the earnings attributable to the share count that could exist after awards vest.

Bottom line

Fairfax's share count story is driven by two opposing forces:

- buybacks, which reduce the current share count and increase per-share ownership
- stock-based compensation, which creates a pipeline of future shares included in diluted share count

The result is that:

- basic/effective shares show the ownership structure today
- diluted shares show the potential ownership structure after stock awards vest

For Fairfax, this distinction is especially important because the company's stock-based compensation program is not typical.

Fairfax is not relying on endless issuance of cheap stock. It is generally buying shares in the market, expensing the compensation properly, and using long vesting periods to build an ownership culture across the organization.

That does not mean the program is costless. It is not. It is a real compensation expense. Over the past nine years, the company has spent about $155 million per year on average purchasing shares for treasury to support these programs.
But for long-term shareholders, Fairfax's approach appears far more aligned, disciplined, and shareholder-friendly than the stock-compensation models used by many other companies.

In short, Fairfax's program does create some dilution in diluted EPS. But it also strengthens culture, retention, and alignment — and it does so in a way that is far more thoughtful than the typical corporate SBC playbook.

Fairfax Shares Outstanding - Effective and Diluted

	Subordinate Voting Shares Jan 1	Issuances During the Year	Purchases For Cancellation	Treasury Shares Acquired	Treasury Shares Reissued	Subordinate Voting Shares Dec 31	Multiple Voting Shares	Interest in Shares Held Through Ownership Interest	Common Stock Effectively Outstanding Dec 31	Treasury Subordinate Voting Shares For Share-based Awards	Diluted Shares Dec 31
2010	19,240,100	563,381	-43,900	-53,104	0	**19,706,477**	1,548,000	-799,230	**20,455,247**	185,558	**20,640,805**
2011	19,706,477	0	-25,700	-53,751	0	**19,627,026**	1,548,000	-799,230	**20,375,796**	238,663	**20,614,459**
2012	19,627,026	0	0	-130,385	0	**19,496,641**	1,548,000	-799,230	**20,245,411**	369,048	**20,614,459**
2013	19,496,641	1,000,000	-36	-45,373	0	**20,451,232**	1,548,000	-799,230	**21,200,002**	414,421	**21,614,423**
2014	20,451,232	0	-8	-23,826	0	**20,427,398**	1,548,000	-799,230	**21,176,168**	438,247	**21,614,415**
2015	20,427,398	1,169,294	0	-185,156	53,553	**21,465,089**	1,548,000	-799,230	**22,213,859**	569,850	**22,783,709**
2016	21,465,089	1,000,000	-30,732	-130,075	40,514	**22,344,796**	1,548,000	-799,230	**23,093,566**	659,411	**23,752,977**
2017	22,344,796	5,084,961	-184,367	-277,364	34,277	**27,002,303**	1,548,000	-799,230	**27,751,073**	902,498	**28,653,571**
2018	27,002,303	0	-187,476	-415,538	89,888	**26,489,177**	1,548,000	-799,230	**27,237,947**	1,228,148	**28,466,095**
2019	26,489,177	0	-249,361	-229,189	71,672	**26,082,299**	1,548,000	-799,230	**26,831,069**	1,385,665	**28,216,734**
2020	26,082,299	0	-343,871	-457,603	146,911	**25,427,736**	1,548,000	-799,230	**26,176,506**	1,696,357	**27,872,863**
2021	25,427,736	0	-2,137,923	-293,197	120,214	**23,116,830**	1,548,000	-799,230	**23,865,600**	1,869,340	**25,734,940**
2022	23,116,830	0	-387,790	-295,474	142,969	**22,576,535**	1,548,000	-799,230	**23,325,305**	2,021,845	**25,347,150**
2023	22,576,535	0	-364,723	-110,528	153,194	**22,254,478**	1,548,000	-799,230	**23,003,248**	1,979,179	**24,982,427**
2024	22,254,478	0	-1,346,953	-207,974	220,145	**20,919,696**	1,548,000	-799,230	**21,668,466**	1,967,008	**23,635,474**
2025	20,919,696	0	-1,006,535	-117,918	312,073	**20,107,316**	1,548,000	-799,230	**20,856,086**	1,772,853	**22,628,939**
2026		Q1-Mch 6	-226,694	0	0				**20,629,392**		**22,402,245**

Fairfax: Shares Issued and Repurchased for Cancellation/Treasury (for compensation programs)

	Repurchased for Cancellation			Repurchased for Treasury			Issued		
		Cost			Cost			Proceeds/Amount	
	Shares	$	$/share	Shares	$	$/share	Shares	$	$/share
2013	36	$0	$403				1,000,000	$399.5	$399
2014	8	$0	$431	53,421	$24.6	$460	0	$0.0	$0
2015	0	$0	$0	185,156	$95.5	$516	1,169,294	$587.0	$502
2016	30,732	$14	$459	130,075	$64.2	$494	1,000,000	$523.5	$524
2017	184,367	$96	$522	277,364	$140.5	$507	5,075,894	$2,191.6	$432
2018	187,476	$93	$494	415,538	$214.0	$515	0	$0.0	$0
2019	249,361	$118	$473	229,189	$104.4	$456	0	$0.0	$0
2020	343,871	$101	$293	457,603	$137.9	$301	0	$0.0	$0
2021	2,137,023	$1,058	$495	293,197	$132.6	$452	0	$0.0	$0
2022	387,790	$200	$515	295,474	$148.2	$502	0	$0.0	$0
2023	364,723	$274	$750	110,528	$89.6	$811	0	$0.0	$0
2024	1,346,953	$1,588	$1,179	207,974	$240.4	$1,156	0	$0.0	$0
2025	1,006,535	$1,652	$1,641	117,918	$193.5	$1,641	0	$0.0	$0
2026	226,694	$384	$1,694	**9-Yr Avg**	**$156M**				

Prem explains Fairfax's compensation program in his shareholder letter in the 2026 annual report.

"We continue to encourage all our employees to be shareholders of Fairfax. We think it will be a great investment for them over the long term and great for the company to have our employees as shareholders in the company. As part of that initiative, close to 10 years ago we decided to have a general principle that our annual bonuses to senior executives across the company would be awarded 50% in cash and 50% in Fairfax shares that vest in five years. As these bonus shares are awarded, the company buys the shares in the market (which comes out of shares outstanding) and they are recorded as treasury shares, as shown in the table below. As the shares are vested and or exercised, the shares are then reissued and come out of treasury shares and back into shares outstanding. You can see over the years our treasury shares have increased from 0.6 million to 1.8 million today. We think this is fantastic and hope they continue to grow over time.

"You will notice that the treasury shares acquired have remained relatively consistent over the last five-year period, especially when compared to our increased employee numbers. Our total compensation, including benefits, paid to our employees worldwide was $2.9 billion in 2025, of which $189 million was awarded in Fairfax shares. As I have said in the past, we would love to have all our employees as owners of Fairfax. Of course, no new shares are issued for these plans. They are all bought in the market." *Prem Watsa – Fairfax 2025AR*

	Treasury Shares	Acquired in the Year	Reissued in the Year
		(in millions)	
2015	0.6		
2016	0.7	(0.1)	0.0
2017	0.9	(0.3)	0.0
2018	1.2	(0.4)	0.1
2019	1.4	(0.2)	0.1
2020	1.7	(0.5)	0.1
2021	1.9	(0.3)	0.1
2022	2.0	(0.3)	0.1
2023	2.0	(0.1)	0.2
2024	2.0	(0.2)	0.2
2025	1.8	(0.1)	0.3

Fairfax also has an Employee Stock Ownership Plan that is available to essentially every employee in the company. The plan offers each employee the opportunity to take up to 10% of their salary annually in Fairfax shares. The company will automatically match 30% and then if certain targets are met (primarily underwriting profit), the company matches an additional 20%. The participation rates differ by company but generally for our large companies, we have a participation rate of approximately 60% and it has been increasing over time. (More on this plan in the Miscellaneous section at the end of the letter.) *Prem Watsa – Fairfax 2025AR*

Chapter 6: Investment Framework

"To invest successfully, one doesn't need a stratospheric IQ... **What's needed is a sound intellectual framework for making decisions** and the ability to keep emotions from corroding that framework." *Warren Buffett*

In this chapter we will explore topics in the 'intellectual framework' part of investing. In Chapter 6 we will flip the script and explore topics in the behavioral (emotion) part of investing.

What kind of a value investor is Fairfax? Graham, Buffett, Templeton, Singleton or Lynch?

Updated: June 20, 2025

To the question "What kind of an investor is Fairfax?" most people would answer "value investor." That is the right answer but it doesn't really tell us much. What kind of a value investor? To answer this question, we are going to look at what Fairfax has been doing for the past three years. What have they actually been buying? What can we learn?

But first, let's set the table.

1.) "The single most important thing (when investing in the stock market)… is to know what you own." *Peter Lynch*

The problem with Peter Lynch is he says so many smart (and funny) things that his 'most important thing' gets lost in the shuffle. This is the 'north star' of everything else he writes. From this naturally flows another of Peter Lynch's nuggets of gold.

2.) "The best stock to buy is the one you already own." *Peter Lynch*

This makes intuitive sense. You have already done the research on the stocks you own. You know 'the story' and you like it (that's why you own it). Assuming the fundamentals are still solid, then buying more should be a no brainer. Ben Graham takes this idea a little further:

3.)"The three most important words in investing are margin of safety." *Warren Buffett*

Ben Graham introduced 'margin of safety' as the central concept of investing in Chapter 20 of his book, The Intelligent Investor. The idea is to only purchase stocks when they are trading at a big discount to their intrinsic value (buy something for $0.50 that is worth $1.00). This approach limits your downside if you are wrong and it provides significant upside if you are right. Warren Buffett takes this idea a little further:

4.) "Diversification may preserve wealth, but concentration builds wealth." *Warren Buffett*

The idea is to invest with conviction around your best ideas. Especially if the stock is on sale. This leads us to our next point.

What do we get when we combine these four points?

Often, your best investment is to simply buy more of something you already own - especially when it is on sale.

One added twist:

5.) "If you search world-wide, you will find more bargains and better bargains than by studying only one nation." *John Templeton*

Invest wherever in the world the best opportunities are.

<u>What does all of this have to do with Fairfax?</u>

Well, guess what Fairfax has been doing for the past 5 years? It has invested close to $8.1 billion in stuff it already owns. Yes, Fairfax has been investing in new ventures but the amount spent is much smaller. **In short, Fairfax has been feasting at the buffet of businesses it already owns.**

<u>High certainty/low risk investing</u>

Investing in what you already own is an example of high certainty investing. High certainty means low risk. This is a highly rational way to invest.

Let's review the actual investments that Fairfax has been making the past 5 years (2020 to 2024) that fit this theme to see what we can learn.

1.) Buy Fairfax stock: NCIB/Dutch Auction and Fairfax Total Return Swaps

Buybacks: NCIB/Dutch Auction

Over the past 5 years, Fairfax has been very aggressive with share buybacks. Both with its NCIB and with its Dutch auction (taking out 2 million shares at $500/share in December 2021). From 2020 to 2024, Fairfax reduced effective shares outstanding from 26.8 million to 21.7 million, a reduction of 5.2 million or 19.2%.

To do this, the total cost to Fairfax was $3.4 billion, or an average of $663/share.

But the 'buy Fairfax stock' story is even better than this. We will discuss why next.

Fairfax - 5-Year Reduction In Shares Outstanding

Year	Effective Shares Outstanding YE m	Share Reduction m	Total Cost US$ b	Avg Cost Per Share
2019	26.8	n/a	n/a	n/a
2020	26.2	0.655	$0.195	$298
2021	23.9	2.310	$1.132	$490
2022	23.3	0.541	$0.275	$509
2023	23.0	0.322	$0.246	$764
2024	21.7	1.335	$1.574	$1,179
Totals	**19.2%**	**5.163**	**$3.422**	**$663**

Fairfax Total Return Swaps

Fairfax also made an investment. In late 2020 and early 2021 they purchased total return swaps that gave them exposure to 1.96 million Fairfax shares at an average price of $373/share. This gave them exposure to another 7.3% of total shares outstanding at Fairfax.

Fairfax reduced their exposure to 1.76 million shares in Q4, 2024.

Let's put the 2 together: Stock Buybacks + FFH TRS

Can we come up with a rough estimate of the total value creation from these two activities over the past 5 years? We are not looking for a precision. We are looking to understand magnitude – about how big was the benefit to Fairfax?

Let's treat the stock buybacks (the reduction in effective shares outstanding) as an investment. Fairfax 'paid' $663/share for 5.16 million Fairfax shares. With Fairfax shares trading at $1,765/share, the 'return' to Fairfax from this investment has been $5.69 billion.
The FFH-TRS position has delivered a return of $2.45 billion (before carrying costs).

Together, these two investments have delivered a 'gain' of $8.14 billion to Fairfax and its shareholders over the past 5 years. To provide perspective of the size of this 'gain', common shareholders' equity at Fairfax was $13.0 billion at December 31, 2019 (the start of this 'investment').

For Fun, Let's Add Share Buybacks with the FFH-TRS				Very Crude Estimate of 5-Year Value Creation	
Updated: June 20, 2025	Shares	Avg Cost	Total Cost		
5-Year Change From 2020 to 2024	**'Purchased'**	**Per Share**	**$ b**	**Per Share**	**Total $ b**
Reduction in Eff Shares Outstanding	5.16	$663	$3.422	$1,102	$5.690
FFH-Total Return Swaps (size today)	1.76	$373	$0.656	$1,392	$2.450
Total Shares 'Purchased'	**6.92**	**$589**	**$4.079**	**$1,176**	**$8.140**
	25.8%				
Fairfax Share Price June 20, 2025		$1,765			
FFH-Total Return Swaps estimated return does not include carrying costs.					

Share buybacks should be done when shares are trading below intrinsic value. Fairfax bought back shares - and in significant quantities – when they were trading well below intrinsic value. Value investing at its best. And exceptional capital allocation.

Who does this string of purchases remind you of?

Not Lynch, Buffet or Graham. Who then?

Henry Singleton. Who is this guy?

> "I mentioned to you last year that we are focused on buying back our shares over the next ten years as and when we get the opportunity to do so at attractive prices. Henry Singleton from Teledyne was our hero as he reduced shares outstanding from approximately 88 million to 12 million over about 15 years." *Prem Watsa – Fairfax 2018AR*

At the time, many people laughed at Prem for making this comment. I don't think these same people are laughing at Prem today.

2.) Increase Ownership of Insurance Businesses - Buy Out Partners = $2.26 billion

Insurance is Fairfax's most important economic engine. Growth in the insurance business over time will support sustainable profit growth at the company. And higher profits lead to higher intrinsic value (and a higher share price).

All other P/C insurance companies have two general ways to grow their insurance business:

- Organic growth – capitalize on the hard market in P/C insurance
- Acquisitions

Fairfax has a third way to grow its insurance business.

- Buy out partners

Fairfax is flush with cash today. It has been generating record earnings in recent years. And earnings are expected to be very robust in the coming years.

What to do?

This is a great time to take out its P/C insurance partners.

And that is what Fairfax has been doing. Over the past 4 years, Fairfax has spent $2.26 billion on 7 different transactions. In some transactions Fairfax took out the majority partner (Singapore Re and Gulf Insurance group). In others, they took out the minority partner (Eurolife, Allied World, Brit).

Fairfax (and its shareholders) now own a greater share of the earnings of all of these high-quality P/C insurance companies.

Fairfax - Buying Out P/C Insurance Partners from 2021 to 2024

Year	Holding	Amount US$	Increase in Fairfax's Ownership Level	Seller
2021	Eurolife	$143	From 50% to 80%	OMERS
	Singapore Re	$103	From 28.1% to 100%	Private
2022	Allied World	$733	From 70.9% to 82.9%	OMERS
2023	Gulf Insurance Group*	$740	From 43.4% to 90%	KIPCO
	Allied World	$31	From 82.9% to 83.4%	Misc
2024	Gulf Insurance Group	$127	From 90% to 97%	Public
	Brit	$383	From 84.2% to 100%	OMERS
	Total Cost	**$2,260**		

Gulf Insurance Group * = $740 million = fair value consideration.

3.) Increase in Ownership of Equity Investments:

Let's now look at what Fairfax has been doing in its equity portfolio over the past 5 years.

We are only going to look at equity holdings that Fairfax has owned since December 31, 2019. To help with our analysis, we are going to split the equity holdings into two buckets:

- Consolidated equity holdings (where Fairfax owns more than 50% or exercises control)
- Equity holdings – excluding consolidated holdings

<u>Consolidated Equities = $1.34 billion</u>

Fairfax has invested $1.34 billion over the past 4.5 years in its consolidated equity holdings. The biggest purchases were Recipe and Peak Achievement. These are well managed companies with strong franchises and solid prospects.

By materially increasing the number and size of companies in this bucket of holdings, Fairfax is growing an important 5th income stream. One that is not correlated to the P/C insurance cycle.

Fairfax - Investments in Legacy Holdings - Consolidated Equities from 2021 to mid-2025				
		Amount	Increase in Fairfax's	
Year	Holding	US$	Ownership Level	Seller
2021	Thomas Cook	$60	Debentures (exercised at INR 47.3/share)	
2022	Fairfax India	$65	From 38% to 42% (at $12/share)	OMERS?
	Recipe	$346	From 46% to 84% (at C$20.73/share)	Public
	Grivalia	$195	From 33.5% to 78.4%	Private
	Sporting Life		From 71% to 88.5% (paid from cash flow)	Private
2023	Grivalia		From 78.4% to 85%	Private
	Peak Achievement	$439	From 42.6% to 100%	
2025	Recipe	$157	From 84% to 100% (took out partner)	CARA
	Keg Royalty Inc Fund	$75	From 50.5% to 100% (at C$18.60/share)	Public
	Total Consolidated	**$1,337**		

Equity Holdings (excluding consolidated holdings) = $1.1 billion

Fairfax has invested $1.1 billion over the past 4.5 years in its other equity holdings (excluding consolidated holdings). Fairfax expanded the size of its partnership with Kennedy Wilson and the purchase of the PacWest construction loan portfolio in 2023 has become a home run investment for both companies. Metlen (formerly known as Mytilineos), Poseidon (Seaspan) and Altius have all been good to very good investments.

Fairfax - Investments in Legacy Holdings - Other Equities from 2021 to mid-2025			
Excluding Consolidated Equities		Amount	
Year	Holding	US$	Comments
2022	Kennedy Wilson	$300	Preferred perpetual stock + 7 yr warrants
	Poseidon (Atlas)	$201	Exercise warrants (25m at $8.05/share)
	Altius	$78	Exercise warrants at C$15/share
	Metlen (Mytilineos)	$53	Add to position (2.7m x €18.50/share)
	Metlen (Mytilineos)	$53	Exch bond (2m at €20.00/share)
2023	Poseidon (Atlas)	$79	Exercise warrants (most, 5m, at $13/share)
	Kennedy Wilson	$200	Preferred stock + 7 year warrants ($16.21)
2025	Metlen	$119	Exchangeable bond (2.75m at €40/share)
	Total Other	**$1,136**	

Summary

Over the past five years, Fairfax has invested a total of $8.1 billion to increase its stakes in businesses that it already owns.

- As a result, Fairfax (and its shareholders) now own a greater proportion of the future earnings streams of these many quality businesses. The FFH-TRS investment has also been

delivering an exceptional return. With these activities, Fairfax is growing the numerator of the EPS formula.

- At the same time, Fairfax has also been aggressively reducing the share count. With this activity, Fairfax is shrinking the denominator of the EPS formula.

The combination of these two activities is spiking EPS at Fairfax.

Fairfax: Summary of Some of the Investments Made Over Last 5 Years		
Buying more of what they already own		
	US$ b	**Timeframe**
FFH Stock Buybacks	$3.400	2020 to 2024
Buying Out P/C Insurance Partners	$2.260	2021 to 2024
Buying More of Legacy Equity Investments		
Consolidated	$1.337	2021 to mid 2025
Other Equities	$1.136	2021 to mid 2025
Total Investments	**$8.133**	
Total Return	**US$ b**	
FFH - TRS (before carrying costs)	$2.658	2021 to June 20 2025

Conclusion: What did we learn?

How Fairfax is investing right now is incredibly simple:

- Invest in what you know (high certainty/low risk).
- Be opportunistic (buy at a discount).
- Act with conviction (size bets appropriately… i.e. 'back up the truck' when appropriate).
- Cast a wide net (go global).

What Fairfax has been doing over the past 5 years is exceptionally rational. Simple. Boring. And in aggregate, it has been delivering an exceptional return to Fairfax and long-term shareholders.

I think the masters would approve of what Fairfax has been doing. In short, Fairfax has been putting on a master-class in value investing and capital allocation over the past five years.

So, after all that, let's get back to our initial question.

What kind of an investor is Fairfax?

Fairfax is a value investor. Their approach is a hybrid of 5 masters: Graham, Buffett, Templeton, Singleton and Lynch.

Chuck Akre – In Search of Compounding Machines (The 3-Legged Stool)

October 21, 2025

Chuck Akre is one of the investing greats. He delivered very good returns over the long term for his investors. He also was a very good communicator and teacher. In our post today, we will explore Akre's wisdom. To see what it can teach us about Fairfax.

Over his lifetime, Chuck Akre focussed on answering two questions:

1. What makes a great investment?
2. What makes a great investor?

Akre's north star: rate of return

> "The bottom line of all investing is rate of return." *Chuck Akre*

Early in his journey, Akre focussed on understanding the power of compounding and how it should be incorporated into an investment framework. For Akre, the answer was rate of return.

The goal of an investor was to earn an above average rate of return (high return on equity). **For an investor to earn an above average rate of return they need to invest in businesses that earn an above average rate of return.**

Investors should only fish in the 'above average rate of return' pond.

What makes a great investment?

What is it about the business that allows it to earn an above average rate of return over the long term?

Akre found an answer to this question. The investment framework he developed he called the 3 legged stool

The 3 legged stool

Akre's investment framework describes the characteristics of a great business.

Leg 1.) Exceptional / high quality business.

- High rate of return business.
- Generates high returns on invested capital.

Leg 2.) High quality management

- Demonstrable skill (able) at running the business (operations). Long track record.
- Integrity (honest) - Treats shareholders as partners.
- Management (results) should be evaluated using per share metrics (to ensure no dilution is happening).

Leg 3.) Good reinvestment opportunities

- This is what allows high return businesses to keep earning high returns into the future.
- Creates long term value by unleashing the power of compounding.
- Want to see both a history and a long runway of future opportunity.

Of the three legs, the third is the most important.

Find a stock that checks all three boxes and your have found a compounding machine. That is investing nirvana.

One more important input.

Purchase price

Don't overpay.

This will allow you to earn higher future returns (this results in better compounding).

Summary

> "Everything should be made as simple as possible, but not simpler." *Albert Eintstein*

Yes, this is a deceptively simple framework.

Here is how Chuck Akre summarizes his approach:

> "The three areas of analysis – business, management, and reinvestment – are the key components of what we call our 'three-legged stool.' When we find a business that satisfies all three of our requirements, we refer to it as a 'compounding machine,' and we seek to purchase shares at a modest valuation." *Chuck Akre*

_____

Additional comments:

How to think about risk

When you find a company that checks all the boxes:

- Exceptional quality
- Strong management
- Abundant reinvestment opportunities
- Purchased at a discount

Investing using this framework exposes an investor to below average risk. (Akre did not define risk in terms of price volatility.)

When to sell

The hardest part of investing is being patient and holding a winning investment for the long term. You will be tempted to sell it. It will probably be a mistake (according to Akre).

It is very difficult to find a great investment - it takes years. So when you find one it should be held. Even if it looks overvalued at times.

Not surprisingly, Akre had a concentrated portfolio. That had low turnover.

How to measure the performance of a management team

The change in the share price over time. Per share metrics are the ones that matter.

On the importance of making (and learnings from) mistakes

> "Good judgement comes from experience. And experience comes from bad judgement."
>
> *An old saying often repeated by Akre.*

Markel

Akre was a fan of Markel (the historical performance of the company back when it was a compounding machine). It would be interesting to get his thoughts on the company today.

Trying to solve the investment puzzle - Chuck Akre - Talks at Google

- https://youtu.be/O38I7QIc_eQ?si=diFIZa5m16SmmwfE

How does Fairfax look using Akre's investment framework?

October 21, 2025

Leg 1.) Exceptional / high quality business?

Fairfax has compounded BVPS at 19% for the past 39 years. The model it uses is similar to the one used by Berkshire Hathaway in the 1980's and 1990's (when it was more leveraged to P/C insurance).

Leg 2.) High quality management

The management team at Fairfax is exceptional. They are equally good at:

- Running the business (P/C insurance and investment management). They have a long track record of excellence in both businesses. When it comes to capital allocation over the past 5 years, their performance has been best-in-class compared to P/C insurance peers.
- High integrity. Shareholders are viewed as valued partners. The communication is very good. Management is focussed on driving per share value for long term shareholders.

Leg 3.) Good reinvestment opportunities

Fairfax has developed an amazing range of capabilities across both P/C insurance and investment management businesses.

With P/C insurance, the company now has a global platform. This gives it a large opportunity set to continue its growth (organically or by acquisition).

With investment management, the company has a diverse set of capabilities.

- Traditional asset classes: fixed income and equities.
- Alternative asset classes: private equity, venture capital, commodities, real estate.
- Global reach, with specialty in India.

Built (earned) over decades, Fairfax has an extensive network of external partners. OMERS (funding). Kennedy Wilson (real estate). These relationships help enormously with deal flow.

In short, the opportunity set today for Fairfax has never been better in the company's history. Capital will be allocated to where it is able to earn the best return. **This should allow the company to continue to earn above average rates of return in the coming years. In turn, this should create enormous value for long term shareholders.**

Fairfax checks all three boxes of Akre's three legged stool - it looks like a compounding machine.

But we need to look at one more important input - valuation.

How is the stock being valued today?

Before making any adjustments, Fairfax's stock looks cheap. Make adjustments for excess of FV over CV for associated and consolidated holdings and the stock looks even cheaper.

Fairfax Valuation Metrics

Share Price - Oct 21, 2025 (intraday)	$1,610
Current 2025 EPS estimate **	$193
2025 Dividend per share	$15
2024 YE book value	$1,058
Estimated 2025 YE book value	$1,235
Price to estimated 2025 YE BV	1.30
Return on average equity	16.8%
P/E	8.3

** Not including change in excess of FV over CV of associate and consolidated holdings = $40/share (after tax)

How Does Fairfax Invest? Public, Private, International, Incubator, Asset Mgr, Infrastructure, Real Estate

April 18, 2023

Fairfax is a value investor. One of the things that makes them unique compared to other insurance companies is the variety of platforms they are comfortable investing across in their search for value.

My goal with the list below is to try and capture the full range / types of investments Fairfax has made over the years. Successfully investing in each bucket requires a very different skill set. Yes, I probably have messed up with how some of the investments have been categorized. And some holdings could be included in more than one bucket.

Not included in the list below is the usual buy/sell large cap US/Canadian stocks as there are too many transactions to try and list everything that would fall into this bucket. With the list below, I am trying to highlight what Fairfax is doing in addition to this traditional strategy.

1.) Venture capital investor: funding given to start-ups or other young businesses that show potential for long-term growth:

- ICICI Lombard (1994) - sold for about $1.2 billion in 2017 and 2018. Home run.
- Quess - formerly IKYA (2013) - via Thomas Cook - still owns – solid investment.
- Digit (2016) – grand slam home run. IPO planned in 2024?
- Davos Brands, Rouge Media, Blue Ant Media (2016)
- Farmers Edge (2017) - a big miss
- Boat Rocker (2018)
- Ki (2020) – insurance via Brit

2.) Venture debt investor: using warrants as sweetener. Pre-2016, I think there were lots of these types of deals (too many to list).

- APR Energy and Chorus Aviation (2016)
- Mosaic Capital, Altius minerals, AGT Food and Ingredients, Westaim (2017)
- Seaspan (2018) - massive $500 million
- Leon's (2020)

3.) Incubator/accelerator investor: fostering early-stage companies through the different developmental phases (including funding to accelerate growth) until the companies have sufficient financial, human, and physical resources to function on their own.

- First Capital - Singapore (2002) - Sold for $1.7 billion in 2016.
- Riverstone UK - run-off (GFIC 2010) - Sold for about $1.5 billion in 2020/21.
- Hartville Group (2013) & Pet Health (2014) - Sold for $1.4 billion in 2022.

4.) Distressed/bankruptcy investor: don't have the cash flow to service their debts and are fighting the clock:

- Bank of Ireland (2011) - Sold for more than $1.4 billion from 2014 to 2017.
- Eurobank (2014) – Bank has turned around and is now performing very well.
- Golf Town (2016) - Merged with Sporting Life.
- Performance Sports (2017) - Bauer/Easton/Cascade
- Carillion Canada/Dexterra (2018) - Merged with Horizon North in 2020.
- Toys "R" Us (2018) - Sold retail operations 2021. Now simply a real estate play.

5.) Real estate investor

- Kennedy Wilson (2010) - Ongoing, growing and very successful partnership.
- Grivalia Properties - Greece (2011) - Very successful; merged with Eurobank in 2019.
- Grivalia Hospitality (2022)

6.) Asset manager

- Fairfax India (2015) - Ownership has increase from 28% to 42%.
- Fairfax Africa (2017) - Merged with Helios in 2020 - spectacular failure.

7.) Private equity investor (via external fund managers) - funds allocated here continue to meaningfully grow:

- BDT Capital (since 2009)
- ShawKwei
- JAB JCP V investment fund (2022)
- Lots more

8.) Turnaround investor: not fighting the clock. Many of Fairfax's investments became 'turnaround' situations after Fairfax made their initial investment especially 2015-2017 vintage.

- Sandridge Energy (2008/09) – Entered bankruptcy in 2016?
- Abitibi/Resolute (2008) – Resolute was sold in 2022 for $626 million plus $183 million CVR
- The Brick - Merged with Leon's 2012. Leon's position was sold in 2021 for $140 million.
- Blackberry (2011) – looking more and more like a spectacular failure.
- Torstar - Sold in 2020.
- Reitmans (2013) - Sold in 2019.
- EXCO Resources - Bankruptcy - take private 2019 (Fairfax owns 44%).
- Fairfax Africa (2015) - Merged with Helios in 2020.
- APR (2016) - Sold to Seaspan/Atlas in 2019.
- AGT Food Ingredients (2017) - Take private in 2019.
- Mosaic Capital (2017) - Take private in 2021 (not managed by Fairfax).

9.) Commodity investor

- International Coal Group (2006-09) - Coal play - sold for big gains.
- Sandridge Energy (2008/09) – Entered bankruptcy in 2016?

- Abitibi/SFK Pulp/Resolute (2006-09) - Paper, pulp & later lumber. Sold in 2022.
- Tembec (2015) - lumber - Sold in 2017.
- EXCO Resources - natural gas - Bankruptcy/take private 2019.
- Altius Resources (2017) - Resource royalty play.
- Ensign Energy Services (2018) - Oil and gas services.
- Stelco (2018) - Steel producer.
- Foran Mining (2021) – Early-stage copper play.

10.) International investor (2014 was a big year)

- Bank of Ireland (2011)
- Grivalia (2011)
- Mytileneos (2013)
- Eurobank (2014)
- Thomas Cook (2014)
- CIB Bank (2014)
- IIFL
- John Keells

11.) Cannibal investor: opportunistically increasing ownership in businesses it already owns a part of. Low risk / high return.

- 1.95 million shares in Fairfax (TRS) at $373/share.
- 2 million shares in Fairfax (stock buyback) at $500/share.
- Increased ownership in Allied World from 70.9% to 82.9% for $733 million.
- Increase stake in Recipe to 84% for $346 million ($100 million from Recipe).
- Increase stake in Grivalia Hosiptality from 33.5% to 78.4% for $195 million.
- Kennedy Wilson preferred equity = $300 million.
- Increase stake in Eurolife from 50% to 80% for $143 million.
- Increase stake in Singapore Re from 28.1% to 100% for $103 million.
- Ownership in Atlas was also increased over this time-frame.
- Fairfax spent another $300 million increasing their ownership in the following companies: Fairfax India, John Keells, Mytilineos, Foran Mining, Altius and Ensign Energy.

Are Fairfax's investment returns volatile? The answer depends on the time frame you use

September 1, 2025

> "It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so." *Mark Twain*

Are you a speculator or an investor?

Ask most people if they are a speculator or an investor... probably 90% will answer that (of course!) they are an investor and not a speculator. They probably even get annoyed that you would even ask the question - the answer being so obvious.

What is interesting is if you look around what these same people actually do... most (better than 50%) likely think and act like a speculator, not an investor. The fundamental problem is much of what is taught by Wall Street encourages casino/speculative behaviour - and it is disguised as investing. So, speculators think they are investors. (Please note, some days, what I reflect on some of my decisions, I wonder what I am.)

Warren Buffett and Charlie Munger have been taking about this paradox for decades.

With this as important context, let's explore a topic that most everyone has a firm opinion on.

Are Fairfax's investment returns volatile?

That is the question we will explore in our post today. And no, this is not a trick question. This post might be a bit of a mind bender for some of you. Or perhaps I am a complete nut job. Anyways, you can decide which it is.

From the gospel of Wall Street: Volatility = risk.

Wall Street logic: The higher the volatility, the higher the risk. The lower the volatility, the lower the risk. Low volatility is equated with high quality. High quality gets a higher multiple.

Investing is easy peasy.

Below are Fairfax's investment results for each of the past 8 years.

Are the annual returns volatile?

Yup. They look like a roller coaster ride - up and down.

In 2017, the annual return was 12.4% (up big). In 2018, it was 0.5% (down big). In 2019, it was 7.6% (up big). In 2020, it was 0.7% (down big) Anyways, I think you get the picture.

And this makes sense. We had bear markets in stocks in 2018, 2020 and 2022. And a historic bear market in bonds in 2022. Not surprisingly, the investment returns from 2018, 2020 and 2022 were lower for Fairfax.

But guess what? The following year, the investment returns rebounded and were very good. This also makes sense.

Summary: calculated using a 1-year time frame, Fairfax's investment returns have been very volatile.

Therefore, using Wall Street logic, Fairfax's investment returns are low quality. And the stock deserves a low multiple.

You can't argue with the numbers and logic!

	Fairfax - Estimating the Total Annual Return of the Investment Portfolio								
	August 24, 2025	2017	2018	2019	2020	2021	2022	2023	2024
1	Interest & dividend income	$559	$784	$880	$769	$641	$962	$1,896	$2,512
2	Share of profit of associates	$201	$221	$170	-$113	$402	$1,015	$1,022	$956
3	Non-insur consolidated companies	$262	$264	$104	-$139	$71	$61	$46	$212
4	Net investment gains including sales	$2,457	$194	$1,692	$430	$3,709	-$514	$2,499	$1,067
5	Change in Excess of FV over CV for A+C	$734	-$1,260	$117	-$680	$1,008	-$106	$765	$475
	Total Investment Return ($m)	**$4,212**	**$202**	**$2,963**	**$268**	**$5,831**	**$1,417**	**$6,228**	**$5,222**
	Total Investment Portfolio - Dec 31 ($b)	**$39.3**	**$38.8**	**$39.0**	**$43.2**	**$53.0**	**$55.5**	**$64.8**	**$69.0**
	Annual Return (using avg investments)	**12.4%**	**0.5%**	**7.6%**	**0.7%**	**12.1%**	**2.6%**	**10.4%**	**7.8%**

Is our analysis done?

Maybe not. Sorry, but I do have one more question.

Why are we using one year as the time frame for our analysis?

Now I understand that all publicly traded companies report results using a 1-year time frame. So, using 1-year (annual) numbers is a great time frame to use when collecting the data to be used in the analysis. It is very easy and convenient.

But does that make 12 months the right time frame to use to analyze and evaluate investment performance?

Are you a speculator or an investor?

Speculators have very short time-frames. 12 months is perhaps a good number to use for this group. It might even be too long.

This post is not being written for speculators. So, we can ignore them.

This post is being written for investors.

What is an appropriate time frame for an investor to use when they invest?

Is it one year? No of course not. That is much too short. It would be idiotic for an investor to use a 1-year time frame. Most investors are likely using at least a 3 to 5 year time horizon when they invest in a stock.

Their analysis will use a similar 3 to 5 year time frame. Perhaps even longer. **And that is because a stock is worth the total of all future cash flows (from today to eternity) discounted to the present value using an appropriate discount rate.**

Is the next year what matters? No. What matters is from today to eternity - that is a much longer time frame than one year.

Not complicated.

What does this have to do with Fairfax?

For an investor, using a one year time frame to analyze and evaluate investment returns is obviously a really stupid thing to do. This time frame is too short (ridiculously so).

What happens if we use a 2-year timeframe to calculate Fairfax's investment results?

For an investor, this is also too short of a time frame to use. But for fun, let's use it and see what happens.

We grouped Fairfax's investment results into the following 2-year periods:

- 2017 and 2018
- 2019 and 2020
- 2021 and 2022
- 2023 and 2024

If we use a 2-year average, are Fairfax's investment results volatile?

Nope. Compared to the 1-year time frame, Fairfax's results have largely smoothed out.

In 2017/2018, the average annual return was 6.1%. In 2019/2020, it was 4.0% (down a little). In 2021/2022, it was 7.1% (up a little). In 2023/2024, it was 9.0% (up a little more).

Bear markets in equities in 2018, 2020 and 2022 and a historic bear market in bonds in 2022… looking at 2-year returns these events magically disappear from view. I think that tells us something… really important. Something Buffett has always understood.

When we use an appropriate time frame, we learn that investing in equities is not nearly as volatile for investment returns as generally thought. And the volatility seen in Fairfax's 2-year returns is likely similar to that of P/C insurance peers (who invest in primarily in fixed income).

Summary: calculated using a 2-year time frame, Fairfax's investment returns have been relatively smooth.

Therefore, using Wall Street logic, Fairfax's investment returns are high(er) quality. And the stock deserves a high(er) multiple.

	Fairfax - Annual Return of Investment Portfolio - 2 Year Averages				
	August 24, 2025	17/18	19/20	21/22	23/24
1	Interest & dividend income	$671	$825	$801	$2,204
2	Share of profit of associates	$211	$28	$708	$989
3	Non-insur consolidated companies	$263	-$18	$66	$129
4	Net investment gains including sales	$1,326	$1,061	$1,597	$1,783
5	Change in Excess of FV over CV for A+C	-$263	-$282	$451	$620
	Avg Total Investment Return ($m)	**$2,207**	**$1,615**	**$3,624**	**$5,725**
	Avg Total Investments - Dec 31 ($b)	**$36.5**	**$40.0**	**$51.2**	**$63.5**
	Annual Return (using avg investments)	**6.1%**	**4.0%**	**7.1%**	**9.0%**

Now let's get crazy.

What happens if we use a 4-year timeframe to calculate Fairfax's investment results?

We grouped Fairfax's investment results into the following 4-year periods:

- 2017 to 2020
- 2021 to 2024

If we use a 4-year average, are Fairfax's investment results volatile?

From 2017 to 2020, Fairfax generated an average annual return on its investment portfolio of 5.0%. This return makes sense given all the headwinds the company was experiencing back then:

- Central banks were executing a zero interest rate policy. As a result, bond yields were historically low.
- Fairfax's equity portfolio was also underperforming:
- The last short was removed at the end of 2020.
- Fairfax's equity portfolio was stuffed full of under performers.

Given all the headwinds Fairfax was facing in the 2017 to 2020 time period, it is amazing that Fairfax was still able to generate an annual average total return of 5% on its investment portfolio. From 2021 to 2024, Fairfax generated an average annual return on its investment portfolio of 8.2%. This return makes sense given the changes that have happened in recent years:

- Central banks ended their zero interest rate policy. As a result, bond yields have normalized to a much higher rate. Interest income has spiked.

- Fairfax fixed its investment framework. Underperforming equity holdings were fixed/dealt with. New purchases have performed very well.

Like with the 2-year time frame, when viewed through a 4-year time frame, Fairfax's investment returns have been relatively smooth.

This time frame also makes it very easy for us to understand Fairfax's investment results. This is critically important when it comes to understanding the business and evaluating the management team.

Capital allocation at Fairfax over the past 5 years has been best-in-class among P/C insurance companies. As a result, Fairfax has been able to generate an exceptional annual average total return of 8.2% on its investment portfolio.

My guess is Fairfax is now earning a 'normalized' return on its investment portfolio of about 8%. This is likely a good run-rate to use moving forward.

Fairfax - Annual Return of Investment Portfolio - 4 Year Average

	August 24, 2025	2017 to 2020		2021 to 2024		2025	2026	
1	Interest & dividend income	$748	39%	$1,503	32%	$2,595	$2,665	45%
2	Share of profit of associates	$120	6%	$849	18%	$770	$1,050	18%
3	Non-insur consolidated companies	$122	6%	$98	2%	$270	$450	8%
4	Net investment gains including sales	$1,193	62%	$1,690	36%	$2,400	$1,500	25%
5	Change in Excess of FV over CV for A+C	-$272	-14%	$536	11%	$1,120	$300	5%
	Avg Total Investment Return ($m)	**$1,911**		**$4,675**		**$7,155**	**$5,965**	
	Avg Total Investments - Dec 31 ($b)	**$38.2**		**$57.3**		**$72.0**	**$77.5**	
	Annual Return (using avg investments)	**5.0%**		**8.2%**		**9.9%**	**7.7%**	

Summary

Are Fairfax's investment returns volatile?

How you answer this question will provide some keen insight into whether you are a speculator or an investor. The answer depends on what time frame you use to analyze the numbers.

For speculators, using a time frame of one year or less, Fairfax's investment returns will look very volatile. For investors, using a time from of two or more years, Fairfax's investment returns look relatively smooth.

This has important implications. Using a 2-year or 4-year time horizon, Fairfax's investment returns are high quality. They deserve a high multiple.

Of course, this is not how Wall Street thinks or works.

Lots of people are speculators masquerading as investors. Is that you?

But here is the best part. If you ask 'investors' if Fairfax's investment results are volatile most of them will say 'yes'. And likely add 'very.' **Even those who have read this post.** And that is because wrong lessons (once learned) are very hard to unlearn. Mark Twain sure was one smart dude.

Warren Buffett has been talking about this topic for decades. The fact his thinking has gotten very little traction is very informative. It shows you how hard it is to change the dominant narrative - even when it is not accurate.

Is It Time to Sell Fairfax? What Can Philip Fisher Teach Us?

December 31, 2025

Over the past 5 years, Fairfax's stock has delivered a total return (US$) of 460% and a CAGR of 41.1%. It has also paid a total of $60 in dividends.

How does this compare to the overall market?

Over the past 5 years, the S&P500 has delivered a total return of 82% and a CAGR of 12.8% (not including dividends).

The performance of Fairfax's share price the past 5 years has been excellent - both in absolute and in relative terms.

Fairfax's Share Price: 5-Year Performance Versus the Market Averages

Ex Dividends	Fairfax C$	Increase %	Fairfax US$	Increase %	S&P500 US$	Increase %	S&P/TSX C$	Increase %
Dec 31, 2020	$434		$341		3,756		17,433	
Dec 31, 2021	$622	43%	$492	44%	4,766	27%	21,223	22%
Dec 31, 2022	$802	29%	$594	21%	3,840	-19%	19,385	-9%
Dec 31, 2023	$1,223	52%	$921	55%	4,770	24%	20,958	8%
Dec 31, 2024	$2,000	64%	$1,390	51%	5,882	23%	24,728	18%
Dec 31, 2025	$2,616	31%	$1,908	37%	6,845	16%	31,713	28%
5-Year Total Increase		503%		460%		82.3%		81.9%
5-Year CAGR		43.2%		41.1%		12.8%		12.7%

Is it time to sell Fairfax?

After such a massive increase in the share price, what is a rational investor to do?

Why SELL of course. At least that is what I probably would have done in the past.

Successful investors need to get two things right: when to buy AND when to sell.

Over my career as an investor, I have been much better at the 'when to buy' decision than the 'when to sell' decision. I have a history of selling my big winners way too early. An example? After more than a 100% gain over a couple of years, I sold most of my concentrated position in Apple in 2016 - right around the time some guy named Warren Buffett started to buy shares.

What was my mistake?

My sell decision was focussed primarily on price.

Back in 2014 and 2015, Apple was well managed. The fundamentals of the business were improving. Capital allocation at the company was very good. Its prospects were very good. In summary, Apple was a high-quality company.

Even after the big spike in the share price over 24 months the stock was still cheap when I sold it in 2016. The crazy part is I knew all of this - I follow my largest positions very closely.

Mistakes will be made

All investors make mistakes. The key is to not make a habit of it.

Past mistakes, if learned from and corrected, can sow the seeds for the big winners in the future.

Clearly, the 'when to sell' part of my investing framework needed to be improved.

If It's Gone This High Already, How Can It Possibly Go Higher?

I love this quote from Peter Lynch.

> "If I'd bothered to ask myself, "how can this stock possibly go higher," I would never have bought Subaru after it already had gone up twentyfold. But I checked the fundamentals, realized that Subaru was still cheap, bought the stock, and made sevenfold after that.
>
> **"The point is, there's no arbitrary limit to how high a stock go, and if the story is still good, the earnings continue to improve, and the fundamentals haven't changed, "can't go much higher" is a terrible reason to snub a stock.** Shame on all those experts who advise clients to sell automatically after they double their money. You'll never get a tenbagger doing that.
>
> "Frankly, I've never been able to predict which stocks will go up tenfold, or which will go up fivefold. **I try to stick with them as long as the story's intact**, hoping to be pleasantly surprised. The success of a company isn't the surprise, but what the shares bring often is."
>
> *Peter Lynch - One Up on Wall Street – p. 266 & 267*

Bottom line, using the stock price as your primary guide for 'when to sell' is a pretty poor approach. Especially when you find a great company, like I had done with Apple.

In age remainder of this post, let's explore the 'when to sell' decision in a little more detail to see what we can learn.

Let's start with a simple question:

When does it make sense to sell a stock?

I have come up with 7 'typical' reasons. Yes, our list is arbitrary. But it will provide a useful way to discuss the topic of 'when to sell' a stock. We are also going to get some help from Philip Fisher (and Chapter 6 of his book, Common Stocks and Uncommon Profits).

Who is Philip Fisher?

Fisher is one of the GOAT's. After Graham, he likely had the greatest influence on Buffett's investing style. (Munger was also a big fan of Fisher.)

In 1990, Buffett said his investing style was 85% Graham and 15% Fisher. Did Buffett's shift even more towards Fisher after 1990? Probably.

Fisher is worthy of study.

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7 reasons to sell a stock.

The first 2 reasons are personal. And the next 5 reasons are financial.

What are the personal reasons to sell a stock?

1.) Life need - you need some cash to cover a life expense.

Perhaps you are buying a house and you need money for a down payment. Perhaps you are older and you want to help your kids out (with school or to 'pay it forward' early). It is best to plan ahead for big life events so the cash is available when you need it. Buffett says if you need the cash in the next 5 years it probably shouldn't be invested in stocks. Personally, I shorten this time period to three years.

It is important to have a financial plan. Part of that plan will include your near-term large life spending needs. You may need to sell some stocks to have an appropriate amount of cash on hand to ensure your life spending needs for the coming years are covered.

2.) When a single holding gets too big - you need to sleep well at night.

For unsophisticated investors, concentration is generally a terrible idea. That is because they don't have the time/inclination/skill that is needed to be successful with a concentrated stock portfolio. For these investors, diversification is a key strategy. As part of that framework, it is important to have a maximum position size for an individual stock (perhaps something like 5%).

For sophisticated investors having a concentrated portfolio can work. But even then, it makes sense to have a maximum position size for an individual stock (for Buffett it was 40%).

For both types of investors, when a stock goes over that position size it should be sold - to bring the weighting back down to the maximum position size.

Selling a stock for personal reasons generally has little to do with the company, management, fundamentals, prospects or the valuation of the business.

Given Fairfax's spike higher over the last 5 years, this reason for selling is likely on the minds of many Fairfax shareholders. This is an important topic and needs/warrants its own (lengthy) post so we aren't going to go in to any more detail on it here.

Let's now pivot and look at some of the financial reasons for selling a stock.

What are the financial reasons to sell a stock?

We have come up with 5 financial reasons to sell at stock. The first 3 are defensive in nature. And the last 2 are offensive in nature.

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3.) If you made a mistake with your purchase.

Your understanding of a company will generally be at its lowest level when you make your first purchase of shares.

Mistakes will happen when investing. That is a given. It is best to figure this out quickly. And then act.

Sounds pretty simple… You made a mistake. You recognize you made a mistake. You quickly correct the mistake. You are golden. That is what any rational investor would do.

So, what's the problem?
Ego. (Often the enemy of being rational.)

Ego stops you from recognizing that you made a mistake.

Mistakes usually result in losses. Most investors have a hard time selling stocks that are in a loss position. Instead, they wait for the stock to return to their purchase price - they will sell it then (they tell themselves). The problem is mistakes don't usually return to an investors purchase price.

"None of us likes to admit to himself that he has been wrong. If we have made a mistake in buying a stock but can sell the stock at a small profit, we have somehow lost any sense of having been foolish. **On the other hand, if we sell at a small loss we are quite unhappy about the whole matter. This reaction, while completely natural and normal, is probably one of the most dangerous in which we can indulge ourselves in the entire investment process.**"

Philip Fisher - Common Stocks and Uncommon Profits

Holding on to mistakes then results in a second bigger problem.

The funds can't be redeployed into a better opportunity.

"**More money has probably been lost by investors holding a stock they really did not want until they could "at least come out even" than from any other single reason.** If **to these actual losses are added the profits that might have been made through the proper reinvestment of these funds if such reinvestment had been made when the mistake was first realized, the cost of self-indulgence becomes truly tremendous.**"

Philip Fisher - Common Stocks and Uncommon Profits

The bigger cost of holding on to mistakes is the opportunity cost. The financial cost can be massive - and only grows the longer the mistake is held. **This is an example of compounding working in reverse.** Good luck getting wealthy with a bunch of stocks like this in your portfolio.

There are two direct financial costs to making a mistake with your original purchase:

1. The decline in value of the mistake you continue to own.
2. The opportunity cost: What you could have earned if you had shifted the funds to a better opportunity.

Given enough time, the second 'loss' can be much bigger than the first.

There is another cost of holding on to mistakes - that is the significant psychological cost to the investor. These positions suck the life out of an investor over time - these positions are like the dementors in the Harry Potter movies. Being a successful investor is exceptionally difficult. It is important to be in a good mental state as much as possible. This will allow you to think and act in a more rational way over time.

It is rational to sell a stock when you become confident/convinced that you have made a mistake. And the sooner you act the better.

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The next two reasons you might want to sell a stock apply to businesses you have owned for years. Sometimes things change. Management. Fundamentals. Prospects. Industry. And what was once a good investment is no longer the case.

4.) Management disappoints/frustrates

Management is a critical part of the investing decision. That is because bad management can destroy shareholder value.

Fisher provides two general types of causes that might result in management messing up badly.

Perhaps the existing management team loses their way. Like Fairfax did from 2012 to 2018.

> "Sometimes management deteriorates because success has affected one or more key executives. Smugness, complacency, or inertia replace the former drive and ingenuity."
>
> *Philip Fisher - Common Stocks and Uncommon Profits*

Or the issue might happen after a leadership transition. Like perhaps what has been happening with Markel in recent years.

> "More often it occurs because a new set of top executives do not measure up to the standard of performance set by their predecessors. Either they no longer hold to the policies that have made the company outstandingly successful, or they do not have the ability to continue to carry out such policies." *Philip Fisher - Common Stocks and Uncommon Profits*

When management messes up badly, it is generally best to sit things out. You can get back in after management demonstrates they have corrected their ways. Like Fairfax eventually did. We will see with Markel.

The next reason to sell is often tied at the hip with management.

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5.) When the economic characteristics/fundamentals of the business deteriorate in a meaningful way.

Very few businesses last forever - even the very good ones. Sometimes the issues are internal - the company loses out to competitors. Sometimes the issues are external - an entire industry gets disrupted. And its economics deteriorate over the years. Like what happened to newspapers.

The important thing is to monitor the situation and to stay open minded. When 'the story' takes a permanent turn for the worse, then it makes sense to sell.

We can combine 4.) and 5.) together to make the following point. A few exceptional companies will be very good investments over the medium term. Even fewer companies will remain very good investments over the long term.

The next reason to sell is offensive in nature.

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6.) You find a much better opportunity.

Here is how Fisher put it:

> "If the evidence is clear-cut and the investor feels quite sure of his ground, it will, even after paying capital gains taxes, probably pay him handsomely to switch into the situation with seemingly better prospects." *Philip Fisher - Common Stocks and Uncommon Profits*

This sounds easy. But this reason for selling a stock is full of potential pitfalls. And that is because of all the different assumptions that are involved in the decision (on both the sell and the buy sides) **and the uncertainty it brings**.

- What if the company you plan to sell is a better value than you think?
- What if the company you want to buy is not as good of a value as you think?

A variation of Peter Lynch's observation:

Most importantly, you don't want to cut your flowers and replace them by planting a bunch of weeds. Of course, investors don't think they are doing this (when they swap an investment). **But this is often what actually happens to investors and it is likely one of the big reasons their investment returns lag over time.**

Selling a stock that you already own to buy a brand-new stock should only happen when you have a high degree of certainty on all aspects of the decision.

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7.) The stock is trading at a premium to its intrinsic value.

This is the reason to sell a stock that was espoused by Ben Graham. Buy when a stock is cheap (margin of safety). Sell when a stock is no longer cheap. Rinse and repeat. Get rich.

The biggest strength of this framework is it is very easy to understand for retail investors. And it is also easy to teach.

It is important to remember: Graham's goal was to come up with an investing framework that could easily be taught to the general public.

He was not trying to come up with an investing framework that would optimize results for sophisticated investors.

Here is the interesting thing. Fisher did not list this as a reason to sell.

Was this a mistake by Fisher? A reason he missed?

No. Fisher didn't list this as a reason to sell because he was playing a completely different game than Graham was.

Let's flip the script.

Is there ever a situation when a stock should never be sold?

According to Fisher, the answer is yes.

Let's explore this next. But we will move from the realm of the average retail investor to that of a sophisticated investor.

Philip Fisher

There is a different way to play the investing game than the one that I outlined above. This method was first developed by Philip Fisher. And then picked up by none other than Warren Buffett/Charlie Munger.

What were some of important building blocks of Fisher's investing framework?

- Only own high-quality companies - determined primarily by qualitative factors (like management). Not determined primarily by quantitative factors. In many ways, Fisher's approach is the opposite of Graham's approach.
- Concentrate in the best ideas.
- **Hold positions forever.**

Fisher is unique in his sell strategy. That is what we want to focus on here.

Buy and hold forever

> "If the job has been correctly done when a common stock is purchased, the time to sell it is—almost never." *Philip Fisher - Common Stocks and Uncommon Profits*

This is, of course, one of the really important things Warren Buffett learned from Fisher. When you own an outstanding company, you should never sell it. **Even when it appears it might be overvalued.**

Volatility and Mr Market

Fisher agreed with Graham that Mr Market was a manic depressive that should be exploited. **But only to buy low.**

When an investor sells a position when it is 'no longer cheap' they are now - perversely - allowing themselves to be exploited by Mr. Market. They are getting tricked into selling a great company (who is likely to grow into an even bigger long-term winner). Investors stop looking at their investment as a business - and they use price as their primary valuation tool.

John Train published 'The Money Masters' in 1980. He profiled 9 investors, including Philip Fisher. Below is how he summarized Philip Fisher's thinking on 'when to sell':

> "…if you have chosen the company properly in the first place, with a reasonable prospect that in ten years, say, the stock will have tripled or quadrupled, is it so important that it's 35 percent overpriced today? And there's always the possibility that the stock's price reflects good news you don't know about yet.
>
> "**Silliest of all, says Fisher, is selling out just because a stock has gone up a lot. The truly great company—the only kind he is interested in buying—will grow on and on, and its stock likewise. That it has advanced substantially since you bought it only means that everything is going just as it should.**"
>
> *John Train (on Philip Fisher) - The Money Masters*

Warren Buffett (at the prodding of Charlie Munger) Embraces Fisher

As you can see from the above quote, Philip Fisher was playing a very different game than most other investors. Including most value investors. **Buffett's genius was not going 'all in' on Fisher's methodology - but in using it for part of his investment portfolio.**

When Buffett found an exceptional company - and he knew it - he held it for the long term. Decades. He might add to it on weakness. **But he never sold it when it ran up in price. He didn't sell it when it was 'no longer cheap.' He didn't even sell it when it was obviously overvalued.**

And Buffett has said that 12 decisions over 60 years is what separates his results from those of average investors (or one decision every 5 years). **But what allowed these 12 decisions to become outstanding investments was what he learned from Fisher - it was his holding period of decades.**

This approach is impossible for most investors to pull off. And that is because they are playing a completely different game. Fisher was content to get rich slow. Investors (throughout history) are focussed on getting rich as quickly as possible. As a result, Fisher's

approach is impossible for most investors to execute. When you are trying to get rich quick you will always find a good reason to sell out of your long-term winners.

What is my key takeaway from Philip Fisher?

I have no desire to try and become a 100% Philip Fisher type of investor. I don't have the time, the desire or the skill to invest that way.

But like Buffett, i think I can become a 15% Philip Fisher type of investor. And that is because every 5 years or so, I have usually been able find one outstanding investment. Something I understand exceptionally well. Where my view of the business is different from 'consensus'. **Moving forward, when I find an outstanding business, I am going to try and get better at my sell discipline - and not be tempted to sell my position. When it gets fairly valued. And also when it appears that it might be overvalued.**

Does this post have anything to do with Fairfax?

Yes. I think Fairfax might have blossomed over the past 5 years into one of those outstanding investments that Philip Fisher (and Warren Buffett) was always on the lookout for.

One final word on the topic of selling from Peter Lynch

> My biggest mistake was that I always sold stocks way too early. In fact, I got a call from Warren Buffett in 1989. My daughter picks up the phone and says, "It's Mr. Buffett on the line."
>
> And I pick up the phone and I hear, "This is Warren Buffett from Omaha, Nebraska." You know, he talks so fast. "And I love your book, One Up On Wall Street, and I want to use a line from it in my year-end report. I have to have it. Can I please use it?
>
> I said, "Sure. What's the line?" He says, "Selling your winners and holding your losers is like cutting the flowers and watering the weeds."
> That one line he picked up in my whole book has been my greatest mistake.
>
> *Peter Lynch - Forbes India, Collectors Edition - November 2017*

Let's go back to what Lynch said at the beginning of this post.

> "I try to stick with them as long as the story's intact…" *Peter Lynch – One Up on Wall Street*

Doesn't this sound similar to Fisher's approach when it came to selling?

Volatility in Financial Markets - Is it good or bad for Fairfax?

August 8, 2024

> "Everyone has a plan until they get punched in the mouth." Mike Tyson

After a long absence, volatility in financial markets is picking up. The next bear market in stocks is coming - we just don't know when or how nasty it will be. A big chunk of Fairfax's investment portfolio is in equities (25% to 30%). Therefore, extreme volatility has to be bad for Fairfax… right? Well, maybe not. In this post we will dig into the volatility thing to see what we can learn.

In this post will look at volatility in two very different ways:

Part 1: Fairfax's ability to profit from volatility

- Is extreme volatility in financial markets good or bad for a Fairfax investor?
- Active management matters again
- How has Fairfax performed aver the past 4.5 years?

Part 2: The impact of volatility on Fairfax's short term reported results

- 'New Fairfax'
- Reported results are now being driven by high quality operating earnings
- A closer look at what has been going on under the hood at Fairfax
- Volatility and market multiple

Let's get started.

Introduction

Wall Street defines risk in terms of volatility - the higher the volatility, the greater the risk.

Warren Buffett thinks how Wall Street looks at risk/volatility is nuts. Buffett defines risk very differently - he defines it in terms of permanent loss of capital. Importantly, Buffett's definition is also largely focussed on the long term.

Buffett looks at volatility through the lens of Mr. Market - he views volatility over the short term as opportunity. Volatility is something to be exploited by an investor. And extreme volatility? Well, that is usually where you find the really fat pitches (that 'back up the truck' thing).

Fairfax and volatility

If history can be used as a guide, long term shareholders of Fairfax should be praying for a shitstorm in the coming months (in the markets in general) and for the company's stock to get taken out behind the woodshed.

Volatility in Fairfax's stock price (in both directions) has historically been a gift for long term investors.

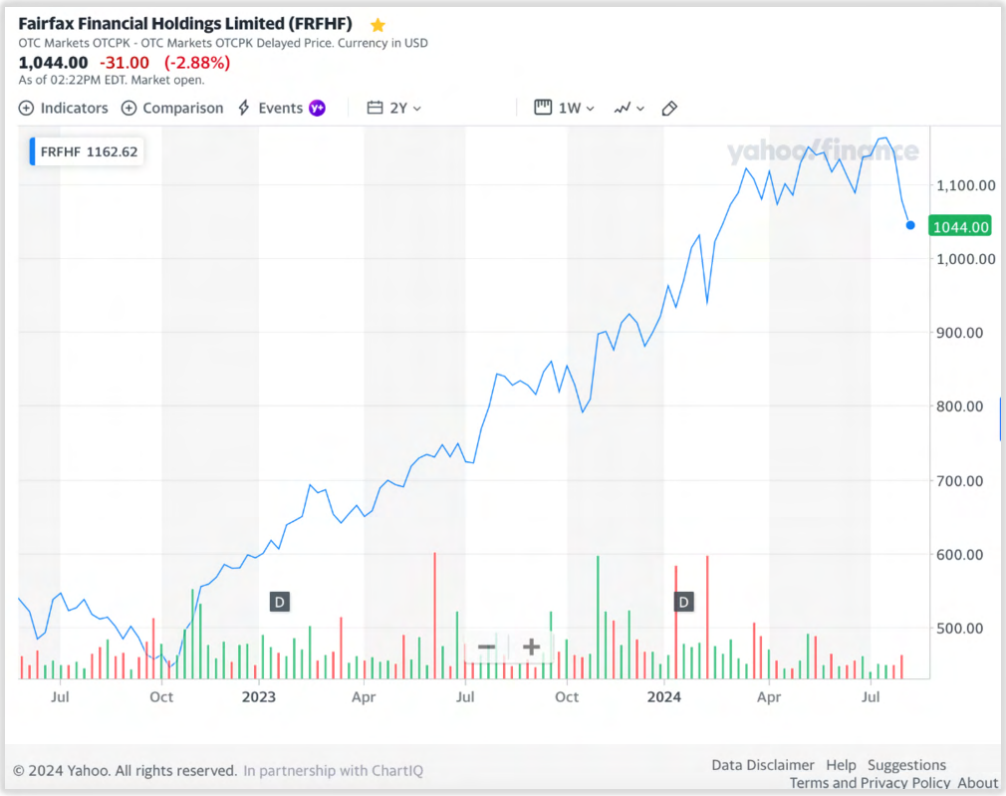
Now don't get wrong… I loved the relentless move higher in the share price that we have seen since October 2022, when the stock was trading at $450. We saw an increase of +150% in 22 months. Fairfax's stock was like a goat climbing straight up a steep mountain.

But investing isn't a Disney movie. Nothing goes straight up forever.

Given its dramatic move higher, Fairfax will likely trade more like a regular stock moving forward. And the average stock fluctuates about 50% (lows to highs) over the course of a year.

As of today (August 7, 2024), Fairfax's stock is down about 11% over the past week or so. 'Investors' are trying to read the animal entrails to determine what is going on (what is causing the short-term volatility).

Me? I have no idea what is causing the sell off. But I love it. Why? That is what we will explore in this post.



Part 1: Fairfax's ability to profit from volatility

Is extreme volatility in financial markets good or bad for a Fairfax investor?

Now this is a great question. With lots of interesting layers.

How you answer this question really depends on your time frame:

Are you a short term or a long-term investor in Fairfax?

For example, if Fairfax's stock dropped 20% - well, that would likely be a terrible result for a short-term trader (note I did not say investor). Who wants to own a stock as a short-term investment that drops 20%? No one.

But is a 20% drop in Fairfax's share price bad for a long-term investor?

No, I don't think it is.

But more than that, given the current set-up, I think it would likely end up being a very good thing for a long-term investor.

Why?

Because Fairfax would be able to take out a meaningful number of shares at a very low price.

Today Fairfax is generating a record amount of free cash flow. And as the hard market in P/C insurance slows, the P/C insurance subsidiaries are generating excess cash - and they are now sending it to Fairfax (as growth in P/C insurance is slowing). Fairfax is all cashed up. And this look like the case for the next 3 years or so (3 years is as far out as our crystal ball can see).

What will Fairfax be doing with all that cash?

On the Q2, 2024 conference call Fairfax provided an update on their capital allocation priorities:

- Priority #1 - maintain a strong financial position.
- Priority #2 - buying back a meaningful amount of stock (that Henry Singleton thing we wrote about last week).

Priority #2 used to be funding the growth of the P/C insurance companies (this has been the case since late 2019). With the hard market slowing this is no longer the case. This is a big change in priorities.

So far in 2024, Fairfax has reduced effective shares outstanding by 820,000 (3.5%) at an average price of US$1,098/share.

Fairfax are value investors. As a result, they only buy back shares when they can be purchased at a discount to their intrinsic value. So, Fairfax thinks its shares trading at $1,100 are cheap. Fairfax's stock closed today at $1,050. It is down 11% over the past week (after hitting an all-time high of $1,178 on July 31, 2024). If it continues to fall from here, Fairfax will get a wonderful opportunity to take out a meaningful number of shares at a very low price.

Buying back a meaningful quantity of shares on the cheap is a great 'use of capital' for long term shareholders. When it comes to share buybacks, the lower Fairfax's share price goes the better.

The timing of buybacks

Does this mean Fairfax is going to buy back a massive number of shares in Q3, 2024? No, of course not. They might. And they might not. **It is impossible to predict how many shares Fairfax will repurchase in any given quarter.** Fairfax has lots of good uses for its free cash flow. But i think it is a good bet that if Fairfax's shares remain at a very low valuation that Fairfax will buy back a meaningful quantity over the next 12 to 24 months.

Of course, this assumes the long-term fundamentals of Fairfax's business are not deteriorating. And I don't think they are.

But there is much more to this story - it gets even better.

Active management matters again

When it comes to capital allocation, Fairfax is an 'active manager.' And they use all the tools in the capital allocation toolkit (sources and uses of cash).

As we learned from Warren Buffett, fat pitches usually come at times of extreme volatility. Over the past 4 years we have had 2 bear markets in stocks (2020 and 2022) and an epic bear market in fixed income (2022/2023).

How did Fairfax perform over the past 4.5 years - when Mr. Market was panicking?

Fairfax made many of their best investments in 'shit storm' type of environments:

- In 2020, initiated the TRS position (getting exposure to 1.96 million Fairfax shares) at $373/share).
- In 2021, took the average duration of their fixed income portfolio to 1.2 years.
- In 2021, bought back 2 million Fairfax shares at $500/share.
- In 2022, took Recipe private at a very attractive price.
- In 2023, invested $4 billion (with Kennedy Wilson) in PacWest real estate loans (with a total return of about 10%).
- In 2023, extended the average duration of their fixed income portfolio to about 3 years.

Fairfax also made many smaller moves from 2020 to 2022, taking advantage of very low prices, to increase their ownership in well run companies they already owned (including Fairfax India, Thomas Cook India and John Keells).

The bottom line, over the past 4.5 years Fairfax has been able to exploit periods of extreme volatility, making many outstanding investments that have generated wonderful returns for Fairfax and its shareholders over time.

Importantly, Fairfax was able to do this when they were cash poor. That is no longer the case. Fairfax is currently generating a record amount of free cash flow - and this looks set to continue for the next 3 years (as far out as my crystal ball looks).

Now when the stock market sells off 20% it generally doesn't feel great. And we will not know in advance with certainty what moves Fairfax will be making. But if history is any guide, extreme volatility in financial markets will likely provide Fairfax with many wonderful opportunities that they can aggressively exploit. As I said earlier, long term Fairfax shareholders should welcome extreme volatility and the opportunities it presents to Fairfax - this is often when Fairfax makes its best investments.

How has Fairfax performed aver the past 4.5 years?

We can evaluate management by looking at a simple, yet highly instructive, metric: increase in book value per share.

Change in book value per share (BVPS)

As a reminder, we had bear markets in stocks in 2020 and 2022 and a historic bear market in bonds is 2022/23. This should have been terrible for Fairfax shareholders... right? This is Fairfax after all...

Despite the extreme volatility in financial markets over the past 4.5 years, Fairfax was able to increase BVPS by 103%. Impressively, the volatility was heavily skewed to the upside (the biggest annual decrease in BVPS was only 2%, in 2020).

Given the volatility in financial markets over the past 4.5 years, are these the annual or total results you would have expected for Fairfax?

No, of course not. **Fairfax's performance over the past 4.5 years was much, much better than expected. I think there is an important lesson to be learned from this - extreme volatility is not the devil that many Fairfax watchers think it is.**

Fairfrax - Change in Book Value last 4.5 Years			
	Book Value		
	US$	Increase	Total increase over 4.5 years
Dec 31, 2019	$486		
Dec 31, 2020	$478	-2%	
Dec 31, 2021	$631	32%	
Dec 31, 2022	$658	4%	
June 30, 2024	$980	49%	103%

Change in share price

In 2020, Fairfax's share price was down 28%. This was what I like to call 'old Fairfax.' Fairfax had just started executing its turnaround but it was not yet recognized by Mr. Market. Sentiment in Fairfax hit rock bottom in 2020.

But look at what happened to Fairfax in 2021, 2022, 2023 and so far in 2024. Fairfax's absolute and relative performance has been outstanding (putting it lightly).

The management team at Fairfax has been executing exceptionally well - among other things, they have been feasting on extreme volatility in financial markets. And this strong performance is being rewarded by Mr. Market.

Fairfax's Share Price - 4.6-Year Performance Compared to S&P500 and S&P/TSX Market Averages									
	Fairfax		Total	S&P500		Total	S&P/TSX		Total
	US$	Increase	increase over past 4.6 years	US$	Increase	increase over past 4.6 years	C$	Increase	increase over past 4.6 years
30-Dec-19	$473			3,231			17,063		
31-Dec-20	$341	-28%		3,756	16%		17,433	2%	
31-Dec-21	$492	44%		4,766	27%		21,223	22%	
31-Dec-22	$594	21%		3,840	-19%		19,385	-9%	
31-Dec-23	$921	55%		4,770	24%		20,958	8%	
07-Aug-24	$1,050	14%	122%	5,200	9%	61%	21,881	4%	28%

Part 2: The impact of volatility on Fairfax's short term reported results

'New Fairfax'

Fairfax as a company has undergone a number of important changes 'under the hood' over the past 5 years. These changes have made the company a very different animal from the company that existed previously. To help differentiate between the two versions, I call Fairfax as it exists today 'New Fairfax' and the Fairfax from +5 years ago 'Old Fairfax.'

Volatility of Fairfax's reported results

The historic reported results (earnings and book value) of 'Old Fairfax's' were always VERY volatile. Not just the quarterly results, but also the annual results. This was due to a number of reasons - largely related to its business model but also how Fairfax was executing the business model.

Moving forward, my guess is the reported results of 'new Fairfax' will be much less volatile than what investors are used to.

Why?

- There has been a significant change in the size of the income streams that Fairfax generates - with a massive shift to lower volatility, higher quality operating earnings.
- The management team at Fairfax has been making many important changes 'under the hood' that suggests reported results in many of Fairfax's individual income streams should be less volatile moving forward.

Let's dig into each of these a little more.

Fairfax's results are now being driven by high quality operating earnings

Let's first look at the time period from 2016 to 2021. Over this 6-year period, Fairfax's biggest income stream was investment gains and it represented an average of 54% of all of Fairfax's income streams. Operating earnings (interest and dividend income, underwriting income and share of profit of associates) averaged 46%.

From 2016-2021, investment gains were - by far - the most important income stream for Fairfax. This income stream was also exceptionally volatile. In turn, this caused Fairfax's reported results to swing quite dramatically from year to year.

'New Fairfax'

This split - investment gains vs operating earnings - has changed dramatically over the past four years. As Prem said very loudly at the AGM this year: 'Fairfax has been transformed.'

Operating income (interest and dividend income, underwriting income and share of profit of associates) has exploded in size at Fairfax over the past 3 years. It averaged $1.1 billion per year from 2016 to 2021. In 2024 it is estimated to come in at around $4.5 billion, **an increase of $3.4 billion.** This is a massive increase.

Operating income is considered by Wall Street to be the 'high quality' source of earnings for P/C insurance companies - because they are considered to be predictable and durable sources of income. On the other hand, given their unpredictability in the short term, investment gains are considered to be a 'low quality' source of earnings.

Today, operating income is Fairfax's largest income stream - it now represents 81% of Fairfax's total income streams. Investment gains now represent 19% of Fairfax's income streams.

There are two really important points:

1. The total size of Fairfax's income streams has exploded in size.
2. All of the growth has happened in the operating income bucket.

This has profound implications on how changes in financial markets will affect Fairfax's reported results (earnings and book value) in the future (when compared to the past). **Fairfax's reported results will likely be much less volatility than in the past.**

Fairfax - Income Streams	2016-21 Avg		2024 Estimate	
Updated: June 3, 2024	$	%	$	%
Insurance - Underwriting Profit	$293	12%	$1,243	22%
Investments - Int and Div Income	$698	28%	$2,377	42%
Inv - Share of profit of associates	$151	6%	$900	16%
Operating Income	**$1,142**	**46%**	**$4,520**	**81%**
Net gains on investment	$1,352	54%	$1,075	19%
Total Insurance and Investments	**$2,494**	**100%**	**$5,595**	**100%**

But there is more to the volatility story.

Let's take a closer look at what has been going on under the hood at Fairfax

Fairfax has three economic engines:

- P/C insurance
- Investments - Fixed income
- Investment - Equities

Let's review some of the changes that have happened in each of these buckets in recent years.

P/C insurance

- Runoff is now a much smaller part of Fairfax's total P/C insurance business. In 2016, the runoff business represented 20.5% of shareholders' equity at Fairfax. In 2023, runoff represented 1.9% of shareholders' equity.
- Fairfax has been shrinking its total catastrophe exposure (as a company) in recent years, especially at Brit.
- The hard market in P/C insurance has now been going on for 4.5 years - Fairfax should be well reserved.

All things being equal, this suggests that Fairfax's reported underwriting results will likely be less volatile in future years than they were in the past.

Investments: Fixed income

As required by regulators, Fairfax began using IFRS 17 accounting on January 1, 2023. Moving forward, when interest rates change, IFRS 17 (and how it accounts for insurance liabilities) will largely work as an offset to changes in the mark to market value of Fairfax's fixed income portfolio. It will not be an exact offset (one goes up the same as the other goes down and vice versa). But it should smooth out the swings quite a bit.

This suggests that large changes in interest rates should result in less volatility in Fairfax's reported results (earnings and book value) in future years than in the past.

Investments: Equities

Since 2020, the composition of Fairfax's equity portfolio has changed dramatically.

- Non-insurance consolidated (private) equity holdings have substantially increased in size in recent years.
    - Recipe and Grivalia Hospitality were added to this bucket in 2022 and the Sleep Country acquisition was just announced.
    - This group of holdings has increased in recent years to now represent about 20% of the total equity portfolio (including Sleep Country).
- Associate equity holdings have also substantially increased in size in recent years - to about 35% of the total equity holdings (not including Stelco now that it has been sold).
    - Fairfax's two largest equity holdings are in this bucket: Eurobank as of January 1, 2020 and Poseidon (formerly Atlas/Seaspan) as of Q1 2020.

The non mark to market group of holdings has increased significantly in size over the past 5 years. **The majority of Fairfax's equity holdings (about 55%) are no longer mark to market type holdings.**

The quality of the equity portfolio has also improved materially

Back in 2018, Fairfax's equity portfolio was stuffed with many 'problem' equity holdings. Over the past 5 years Fairfax has done a great job of dealing with all of its poorly performing equity holdings. As a result, the overall quality of the equity portfolio has improved dramatically.

There are two really important points:

1. The quality of Fairfax's equity portfolio has improved dramatically over the past 5 years.
2. Over the past 5 years, the composition of Fairfax's equity portfolio has shifted from mostly mark to market holdings to mostly non mark to market holdings (at about 55% in 2024).

This suggests a big sell-off in equity markets should result in much less volatility in Fairfax's investment gains and reported results (earnings and book value) in future years than in the past.

Remember, investment gains are now also a much smaller income stream for Fairfax as a percent of total income streams. So, a much smaller income stream will also be much less volatile - this is a double impact.

Summary

Many important changes have happened at Fairfax over the past number of years:

- Operating income, at about 80%, is now - by far - Fairfax's largest income stream.
- The P/C insurance business continues to improve in quality and shrink its catastrophe exposure.
- The implementation of IFRS 17 will smooth results in the fixed income portfolio.

- The equity portfolio has improved dramatically in quality and significantly shifted away from mark to market type holdings.

All of these changes should make Fairfax's future reported results (earnings and book value) much less volatile than in the past.

Important: this does not mean that Fairfax's reported results will not have some volatility to them in the future. The point is the volatility should be <u>much less</u> than what we have seen in the past.

<u>Volatility and market multiple</u>

This is important because for Wall Street, earnings volatility and market multiple are linked at the hip. All things being equal, the stocks of lower volatility businesses (from an earnings perspective) usually receive a higher multiple. And the stocks of higher volatility businesses usually receive a lower multiple.

My guess is Wall Street does not yet fully grasp the changes that have happened at Fairfax that will lower the volatility of future reported results (when compared to the past). As a result, 'lower volatility' is likely not yet priced into Fairfax's stock. This provides another important tailwind for long term investors.

<u>Fairfax's Valuation</u>

Fairfax is trading today at a trailing P/BV multiple = 1.1

- Fairfax has delivered the best growth in book value per share among P/C insurance peers over the past 5 years.
- We also know that Fairfax's book value is materially understated (gain from Stelco sale + excess of market value over carrying value of equity holdings).
- Fairfax is poised to deliver mid-teens ROE in 2024 and the coming years.
- And now we know Fairfax's future reported results will likely be <u>much</u> less volatile than in the past (meaning they are of much higher 'quality').

All of this warrants a trailing P/BV multiple of 1.1? Really?

Is it any surprise that Fairfax has been VERY aggressive taking out shares YTD in 2024 at a slight premium to book value?

Fairfax (US$)		
Share Price	$1,093	Aug 9, 2024
Book Value	$980	June 30, 2024
P/BV	1.10	

Chapter 7: Psychology / Temperament and Investing

"To invest successfully, one doesn't need a stratospheric IQ... What's needed is a sound intellectual framework for making decisions **and the ability to keep emotions from corroding that framework**." *Warren Buffett*

In Chapter 5 we explored topics in the 'intellectual framework' parts of investing. In Chapter 6 we flip the script and explore topics in the behavioral/psychological/emotion parts of investing.

Why do most people mess up when it comes to investing?

According to Charlie Munger, Warren Buffett's long-time partner, it is not because of a lack of brains. It is because they do not have the right temperament (emotional make-up).

Charlie wrote extensively on the behavioral aspects of investing. Below is a link to one of his more well-known pieces. In it, Charlie discusses 25 psychological tendencies that can lead to people to make bad decisions (human misjudgements). He provides a framework and mental models to help understand and mitigate these biases.

The Psychology of Human Misjudgment - By Charles T. Munger

- https://fsmisc.s3.ca-central-1.amazonaws.com/great-talks/The+Psychology+of+Human+Misjudment.pdf

What Is Wrong with Fairfax's Stock Price? The Lesson of Mr. Market

May 4, 2026

After five years of near uninterrupted gains, Fairfax's share price has hit some turbulence:

- Down 7.5% on Friday, May 2, 2026
- Down 16% year-to-date
- Flat over the past year

What is an investor to do?

Panic? And sell?
Or step back and think clearly?

Start with the Right Framework

This is not primarily an analytical problem. It is a behavioral one.

The behavioral dimension of investing—how psychology, emotion, and bias influence decisions—often dominates real-world outcomes. Price volatility tests temperament, not intelligence.

Few have explained this better than Warren Buffett, building on the teachings of Benjamin Graham.

Two Questions That Actually Matter

Before reacting to price, an investor should ask:

1. Do you understand the business?

- Fundamentals
- Capital allocation
- Management quality
- Long-term prospects
- Shareholder alignment

On these measures, Fairfax has been exceptional. The past five years have been outstanding, and the next five look equally compelling. The company resembles a high-performing athlete entering its prime.

2. Are you an independent thinker?

- Do you rely on price to validate your view?
- Or do you anchor on intrinsic value?

Because price and value are not the same thing.

Mr. Market: The Key Insight

Graham's Mr. Market offers a simple but powerful lens:
The market is there to serve you—not to guide you.
Daily price quotes reflect emotion, not value. Sometimes they are useful. Often, they are not.

The implication is critical:
Price weakness does not necessarily mean business weakness.

Reconciling that apparent contradiction is the essence of successful investing. It requires having the right temperament.

What Fairfax Is Actually Doing

Management is behaving consistently with this framework.

They understand the business. They understand its value. And they are acting accordingly.

- 2025: repurchased and cancelled >1 million shares at ~$1,615
- Q1 2026: repurchased 374,883 shares at ~$1,684
- May 2, 2026 close: $1,598/share

At the same time:

- 2025 was the best year in company history
- Intrinsic value has grown meaningfully over the past 15 months

The signal is clear: management is treating price weakness as opportunity.

If current conditions persist, continued aggressive buybacks in 2026 would represent a high-certainty, high-return use of capital.

Putting It Together

You are left with two facts:

- The business is performing at a high level
- The stock price is underperforming

Most investors struggle here. They assume the second must reflect the first.
It doesn't have to.

The Real Lesson

Mr. Market is not teaching you about markets.

He is teaching you about yourself.

- Can you separate price from value?
- Can you remain rational when others are not?
- Can you act when opportunities appear—and do nothing when they don't?

Because in investing:

Behavior—not analysis—is often the decisive edge.

Bottom Line

Fairfax's recent share price weakness is not, by itself, a signal.

It is an invitation.

Whether it becomes an opportunity—or a mistake—depends entirely on how you respond.

Quote from Warren Buffett – from Berkshire Hathaway's 1987 Annual Report

"Ben Graham, my friend and teacher, long ago described the mental attitude toward market fluctuations that I believe to be most conducive to investment success. He said that you should imagine market quotations as coming from a remarkably accommodating fellow named Mr. Market who is your partner in a private business. Without fail, Mr. Market appears daily and names a price at which he will either buy your interest or sell you his.

"Even though the business that the two of you own may have economic characteristics that are stable, Mr. Market's quotations will be anything but. For, sad to say, the poor fellow has incurable emotional problems. At times he feels euphoric and can see only the favorable factors affecting the business. When in that mood, he names a very high buy-sell price because he fears that you will snap up his interest and rob him of imminent gains. At other times he is depressed and can see nothing but trouble ahead for both the business and the world. On these occasions, he will name a very low price, since he is terrified that you will unload your interest on him.

"Mr. Market has another endearing characteristic: He doesn't mind being ignored. If his quotation is uninteresting to you today, he will be back with a new one tomorrow. Transactions are strictly at your option. Under these conditions, the more manic-depressive his behavior, the better for you.

"But, like Cinderella at the ball, you must heed one warning or everything will turn into pumpkins and mice: Mr. Market is there to serve you, not to guide you. It is his pocketbook, not his wisdom, that you will find useful. If he shows up some day in a particularly foolish mood, you are free to either ignore him or to take advantage of him, but it will be disastrous if you fall under his influence. **Indeed, if you aren't certain that you understand and can value your business far better than Mr. Market, you don't belong in the game.** As they say in poker, "If you've been in the game 30 minutes and you don't know who the patsy is, you're the patsy."

"Ben's Mr. Market allegory may seem out-of-date in today's investment world, in which most professionals and academicians talk of efficient markets, dynamic hedging and betas. Their interest in such matters is understandable, since techniques shrouded in mystery clearly have value to the purveyor of investment advice. After all, what witch doctor has ever achieved fame and fortune by simply advising "Take two aspirins"?

"The value of market esoterica to the consumer of investment advice is a different story. In my opinion, investment success will not be produced by arcane formulae, computer programs or signals flashed by the price behavior of stocks and markets. **Rather an investor will succeed by coupling good business judgment with an ability to insulate his thoughts and behavior from the super-contagious emotions that swirl about the marketplace.** In my own efforts to stay insulated, I have found it highly useful to keep Ben's Mr. Market concept firmly in mind.

"**Following Ben's teachings, Charlie and I let our marketable equities tell us by their operating results – not by their daily, or even yearly, price quotations – whether our investments are successful. The market may ignore business success for a while, but eventually will confirm it.** As Ben said: "In the short run, the market is a voting machine but in the long run it is a weighing machine." **The speed at which a business's success is recognized, furthermore, is not that important as long as the company's intrinsic value is increasing at a satisfactory rate. In fact, delayed recognition can be an advantage: It may give us the chance to buy more of a good thing at a bargain price.**" *Berkshire Hathaway AR - 1987*

How to make the big money? Patience – Time, Compounding and Exponential Growth

June 17, 2025

To state the obvious, outperforming the market averages is very difficult. Especially over a longer timeframe like 10 years. So why manage your own investments? Investors usually do it for the opportunity to make the big money - to materially outperform the market averages.

How can an investor do that? That is what we are going to explore in this post.

The post has been broken into the following parts:

1. Learning from the master: how did Warren Buffett do it?
2. Time, compounding and exponential growth.
3. What do investors actually do?
4. How to make the big money.
5. Berkshire Hathaway shareholders – the GOAT of retail investors.
6. Fairfax Financial – looks very well positioned.

> "In 58 years of Berkshire management, most of my capital-allocation decisions have been no better than so-so… Our satisfactory results have been the product of about a dozen truly good decisions – that would be about one every five years.
>
> "The lesson for investors: The weeds wither away in significance as the flowers bloom. Over time, it takes just a few winners to work wonders. And, yes, it helps to start early and live into your 90s as well." *Warren Buffett - Berkshire Hathaway 2022AR*

Part 1: Learning from the master: How did Buffett do it?

Warren Buffett has been able to significantly outperform the market averages since 1965. Over the past 59 years (to YE 2024), Berkshire Hathaway stock has delivered a CAGR of 19.9%, which is almost 2 times the CAGR of the S&P 500 of 10.4% (including dividends). Yes, Buffett has delivered the 'big money' for Berkshire Hathaway's shareholders.

Berkshire Hathaway	
Compounded Annual Change - 1965-2024	
in Per-Share Market Value of Berkshire	19.9%
in S&P 500 with Dividends Included	10.4%

But here is what is really interesting. Buffett readily admits most of his capital allocation decisions over this 59-year time period were 'so-so.'

He goes on to explain that his significant outperformance was driven by a small number of 'truly good decisions.' Buffett puts the number at 12, or one about every 5 years.

This looks like it could be important. Let's explore this further.

What is Warren Buffett's greatest attribute?

Yes, this is kind of a dumb thing to ask. Let's do it anyway. What is it about Warren Buffett that has allowed him to consistently generate such outstanding results over the past 59 years?

- Intellect?
- Work ethic?
- Thirst for knowledge?
- Character?
- Self-awareness?
- Management skills?

Obviously, all of the above attributes are important and will help an investor achieve success. But lots of investors have many of these attributes - and yet they still underperform the market averages over time (let alone outperform to the degree that Buffett did).

Is there something else, not listed above, that perhaps explains Buffett's significant outperformance?

I think there is something else…

I think Buffett's greatest strength might be his patience. (And patience is joined at the hip with temperament.)

Before you throw your phone/tablet in disgust, let me explain. We need to peel the layers back.

Buffett's holding period is not months. Or years. For his 'truly good decisions,' the investments that become needle movers for Berkshire Hathaway, his holding period can be measured in decades. And that is very different from almost any other investor out there. That is something Buffett does that pretty much no one else does. (Please name another successful investor who did it this way… I can't think of another one.)

After patience, I think Buffett's next greatest strength might be how he sizes his positions, especially his best ideas. And not just at the time of purchase - but also over time. How to size a position is exceptionally difficult to do and is a topic that deserves its own post - so we will not explore it further here.

There are a couple of lessons here:

- Really, really good investment opportunities are very rare. Over his lifetime, Buffett points to 12 that worked out for him - or one about every 5 years.
- But finding a great investment is not enough on its own. Great patience is also required. It can take a decade or more for some investments to fully bloom.

Of the two skills - finding a great investment and having great patience with it - the second is the one that is incredibly rare today.

Part 2: Time, compounding and exponential growth

What is the greatest advantage of an investor?

It is time.

Why time?

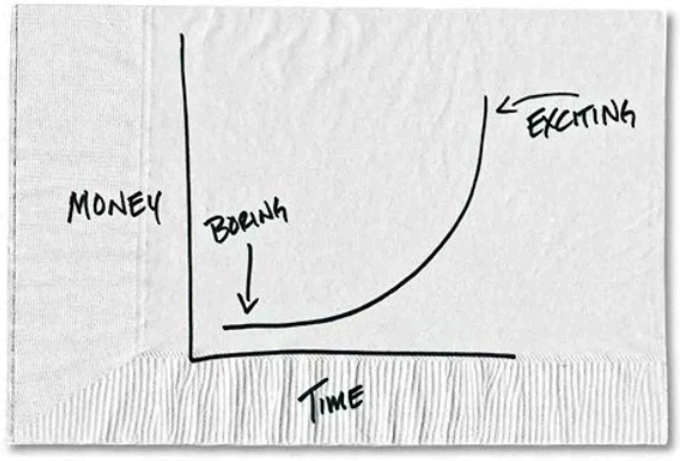
Time is what allows compounding to work its magic.

Compounding is simple to explain but wicked difficult for most people to actually understand. I like the description in the drawing below. It is 'boring' for years and then it gets very 'exciting'.

Given enough time, compounding inevitably results in exponential growth. Or at least that is what one would think. More on this later.

The goal of all investors is to get their portfolio to the 'exciting' part of compounding curve (the hockey stick part) - because it is life changing when it happens.

Compound Interest drawing by Carl Richards



Buffett's genius?

It is understanding that patience and time are two sides of the same coin. Together, they allow an investor to fully maximize the benefits of compounding. This in turn, can lead to exponential growth.

Patience: this is how the big money is made.

Let's take a quick trip into the archives

One of my all-time favorite books on investing is Reminiscences of a Stock Operator by Edwin Lefebvre. It was first published all the way back in 1923 in The Saturday Evening Post (in serial form over two years).

Of all the memorable quotes in this book the following might be my favorite:

> "And right here let me say one thing: After spending many years in Wall Street and after making and losing millions of dollars I want to tell you this: **It never was my thinking that made the big money for me. It always was my sitting.** Got that? My sitting tight! It is no trick at all to be right on the market. You always find lots of early bulls in bull markets and early bears in bear markets. I've known many men who were right at exactly the right time, and began buying or selling stocks when prices were at the very level which should show the greatest profit. And their experience invariably matched mine - that is, they made no real money out of it. **Men who can both be right and sit tight are uncommon.** I found it one of the hardest things to learn. **But it is only after a stock operator has firmly grasped this that he can make big money…**" *Reminiscences of a Stock Operator*

What is the lesson to be learned?

Finding a great investment is hard. Holding a great investment for years, perhaps decades - that is much more difficult. Should we be surprised that Buffett is in a league of his own?

Part 3: What do investors actually do?

> "Selling your winners and holding your losers is like cutting the flowers and watering the weeds."
>
> *Peter Lynch*

Warren Buffett liked this quote so much he contacted Peter Lynch and asked him if he could use it.

What is the average holding period for retail investors?

I think it is around 5.5 months. And falling over time.

Retail investors are like Edward Scissorhands. The flowers in their garden don't stand a chance.

Actually, we probably need to update Peter Lynch's quote. These days, retail investors are so active buying and selling stocks in their portfolio - it's like they completely raze their garden at least one time every year or two. What's the chance the flowers are getting cut? Probably close to 100%.

Should we be surprised that most retail investors achieve such poor results over time?

What about the professional/smart money?

The performance of professional/smart money is measured by investors quarterly… so they can't be patient with their holdings. Deliver sub-par results over a couple of quarters and retail investors start to pull the plug. The professional/smart money has to chase short-term performance if they want to stay in business (or get paid their bonus) - which usually means owning whatever are the most popular stocks at a given time (the list of which is always changing).

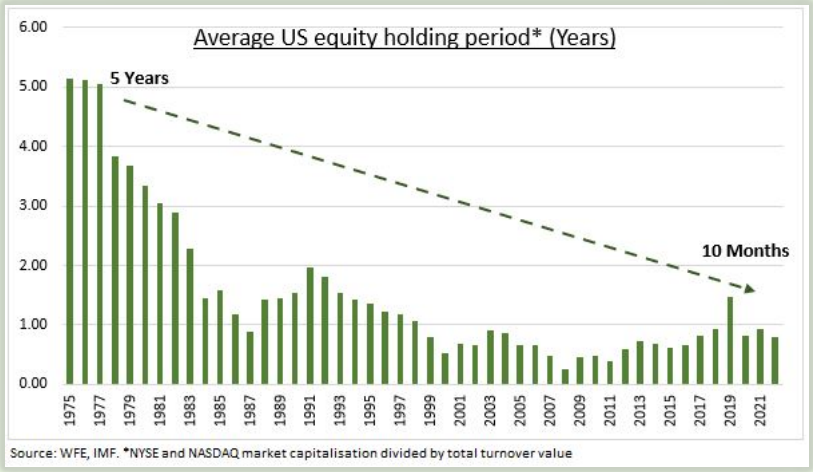
The bottom line, 'patience' is not a word that is in the vocabulary of retail and professional investors or in their toolboxes.

Patience is primarily the stomach part of investing. Not the brain part. This probably tells us something…

Ben Carlson has a good article on the subject of holding period.

Buy & Hold is Dead, Long Live Buy & Hold (Feb 2023)

- https://awealthofcommonsense.com/2023/02/buy-hold-is-dead-long-live-buy-hold/



(As an aside, 'The Compound' has become one of my favorite podcasts to listen to. Josh, Michael, Ben and guests are great. They have a bunch of different formats depending on what you are interested in. https://podcasts.thecompoundnews.com)

Taking profits

Why do retail investors turn their portfolio over so much? Lots of reasons. To buy something they think is better. To get rid of a mistake. To try and time the market. Macro call. Hot tip. I could list another 10 'good' reasons.

Let's be optimistic. We are told taking profits is a sensible thing to do. Yes?

But remember, in this post, we are trying to learn how to make the big money.

Here is another great quote from the book 'Reminiscences of a Stock Operator':

> "They say you never grow poor taking profits. No. you don't. But neither do you grow rich taking a four-point profit in a bull market." *Reminiscences of a Stock Operator*

When investors sell their best ideas, they are cutting the flowers in their portfolio. And because the really good ideas (that actually work out) are exceptionally rare (Buffett found one about every 5 years), the proceeds are recycled back into inferior ideas - investors water their weeds. Of course, at the time investors don't think they are doing this (they think they are doing the opposite).

This is like throwing sand in the gears of the compounding machine we discussed earlier. And hurts investment results. Investors get stuck in the 'boring' stage (from the napkin drawing above). As a result, many investors never actually get to the 'exciting' stage in their lifetime - the hockey stick part of compounding that becomes life changing.

What does the investment industry have to say on this topic?

I find it is helpful to follow the money. Incentives matter. A lot. How does everyone in the industry get paid? Fees. And fees generally come from activity. Action. Churn. Chasing short term performance. Yes, the exact opposite of patience.

Part 4: How to make the big money

Buffett's very simple model:

- Step 1: Identify a 'truly good' investment and size the position appropriately.
- Step 2: Exercise great patience and let it grow undisturbed, sometimes for decades.

Truly great investments (the needle movers) are exceedingly rare. When you discover one, you need to size it appropriately. And then you hang on to it. For a long, long time.

Do we have any real-life examples of 'patience' actually working out for a retail investor?

Yes. A company named Berkshire Hathaway.

Part 5: Berkshire Hathaway Shareholders – The GOAT of Retail Investors

Investors have known for decades that Berkshire Hathaway was run by one of the best capital allocators of all time. All an investor had to do was buy shares and watch the Buffett flower bloom every year… bigger, brighter and more beautiful.

Importantly, investors had years to watch (learn) and get their position sized right.

How many investors followed Berkshire Hathaway over the decades? Lots.

How many investors never bought shares? Lots.

How many investors bought shares and then sold them after a small gain? Lots.

How many investors bought shares and then held them for a decade or longer? Very few. But the few who did were able to build great wealth over time. These investors exercised great patience - and were richly rewarded.

These investors had a 'truly great idea' - buy Berkshire Hathaway stock. But their real genius - what separated them (and their returns) from all other investors - was their patience. Like Buffett, they held the stock for the long-term.

Why didn't these investors sell out? That is a great question. I don't know. Because I sold my Berkshire Hathaway stock each time I owned it - after what I thought was a nice gain. With hindsight, I was a dummy. I was happy making a small profit. And I completely missed the big move - when it was staring me right in the face.

So, what does all of this have to do with Fairfax? Maybe nothing. Maybe everything.

Part 6: Fairfax Financial – Looks Very Well Positioned

Similar to Berkshire Hathaway, Fairfax has an outstanding long-term track record. Fairfax was founded in 1985. Over the past 39 years the company has delivered a compound return of 17.9% (not including dividends). Over the same time-frame, the S&P500 has delivered a compound return of 8.9% (not including dividends). Fairfax has significantly outperformed the S&P 500 over the past 39 years.

Fairfax Financial - 1985 to 2024	Year End Value		
Compounded Annual Change	1985	2024	CAGR
Fairfax - share price (C$)	$3.25	$2,000	17.9%
S&P 500	211	5,882	8.9%
* dividends not included for both Fairfax and S&P 500			

However, unlike Berkshire Hathaway, Fairfax had a pretty big stumble from about 2010-2017. The investing side of the business messed up (the insurance side of the business continued to perform well). Business results suffered. However, from about 2016 to 2020 the company got to work correcting its past mistakes. By 2021, the turnaround was largely complete.

Operating income increased from an average of $1 billion per year from 2016-2020, to $1.8 billion in 2021, to $3.1 billion in 2022, to $4.4 billion in 2023 and $5.3 billion in 2024.

Since around 2018, Fairfax's capital allocation decisions have been very good - best-in-class among P/C insurers. I have written about this extensively in other posts so I am not going to rehash things here. Bottom line, the set-up at Fairfax today - with both insurance and investment businesses - has never looked better.

Now I generally hate comparing Fairfax with Berkshire Hathaway because they are such different companies. But I am going to break my rule in this post.

Here is what I am wondering…

Does Fairfax today look like a much younger Berkshire Hathaway?

Here are some of the similarities I see between Fairfax today and a Berkshire Hathaway from 30 years ago:

1. Business model: Built squarely on the P/C insurance / float model (Berkshire Hathaway has more of a conglomerate business model today).
2. Capital allocation: Master capital allocator (Fairfax has been hitting the ball out of the park in this regard since 2018 - that is a pretty good timeframe to use to evaluate the current management team).
3. Significant, sustainable earnings: Fairfax earned $3.9 billion in 2024 (amount attributable to Fairfax shareholders). And this level of earnings looks sustainable moving forward.
4. Size: Fairfax is still small in size - good capital allocation decisions move the needle in terms of financial results (earnings and book value growth).
5. All of the above + the power of compounding = opportunity for exponential growth over the next decade. To quote Warren Buffett: 'Time is the friend of the wonderful business.'
6. Valuation: Fairfax's stock is trading today at a low valuation - both compared to P/C insurance peers and the overall stock market.

The set up today for Fairfax looks - to me - an awful lot like a much younger Berkshire Hathaway. Fairfax is poised to become a compounding machine in the coming years. If that happens, Fairfax will become what Buffett calls a 'truly good decision' for investors.

Is Fairfax, once again, a buy and hold type of stock?

I am warming to this idea. I think 5 years is a good amount of time to evaluate a management team - and the team at Fairfax has done an exceptional job over the past 5 years. This topic is important - let's give it the attention it deserves in a future post.

Full quote by Warren Buffett from Berkshire Hathaway's 2022AR

"At this point, a report card from me is appropriate: In 58 years of Berkshire management, most of my capital-allocation decisions have been no better than so-so. In some cases, also, bad moves by me have been rescued by very large doses of luck. (Remember our escapes from near-disasters at USAir and Salomon? I certainly do.)

"Our satisfactory results have been the product of about a dozen truly good decisions – that would be about one every five years – and a sometimes-forgotten advantage that favors long-term investors such as Berkshire. Let's take a peek behind the curtain.

The Secret Sauce

"In August 1994 – yes, 1994 – Berkshire completed its seven-year purchase of the 400 million shares of Coca-Cola we now own. The total cost was $1.3 billion – then a very meaningful sum at Berkshire.

"The cash dividend we received from Coke in 1994 was $75 million. By 2022, the dividend had increased to $704 million. Growth occurred every year, just as certain as birthdays. All Charlie and I were required to do was cash Coke's quarterly dividend checks. We expect that those checks are highly likely to grow.

"American Express is much the same story. Berkshire's purchases of Amex were essentially completed in 1995 and, coincidentally, also cost $1.3 billion. Annual dividends received from this investment have grown from $41 million to $302 million. Those checks, too, seem highly likely to increase.

"These dividend gains, though pleasing, are far from spectacular. But they bring with them important gains in stock prices. At yearend, our Coke investment was valued at $25 billion while Amex was recorded at $22 billion. Each holding now accounts for roughly 5% of Berkshire's net worth, akin to its weighting long ago.

"Assume, for a moment, I had made a similarly-sized investment mistake in the 1990s, one that flat-lined and simply retained its $1.3 billion value in 2022. (An example would be a high-grade 30-year bond.) That disappointing investment would now represent an insignificant 0.3% of Berkshire's net worth and would be delivering to us an unchanged $80 million or so of annual income.

"The lesson for investors: The weeds wither away in significance as the flowers bloom. Over time, it takes just a few winners to work wonders. And, yes, it helps to start early and live into your 90s as well."

Is Fairfax 'The Big Fish That Got Away?' – Avoiding Common Mistakes ('trying to be consistently not stupid')

February 18, 2025

Introduction

Investors have lots of regrets. Missed opportunities. Not buying a stock that afterwards turns into a big winner. Or selling a winning position way too early. 'The big fish that got away' kind of story.

These stories resonate so much because big fish are hard to find. And even harder to catch. When you have one nibbling at the end of your fishing line you need to make sure you hook it and reel it in. It might be a long time before another one comes along.

In 2021, Fairfax's shares delivered a return of 44%. After such a big run in the share price over a 1-year (short) time period, an investor looking at Fairfax in early 2022 (who did not own shares) might have reasonably concluded 'Dang, missed that one!' and not invested. 'I'll just wait for a sell-off in the shares and buy them then.' At the time, this logic and approach probably made perfect sense! It was Fairfax after all… a perennial underachiever. Of course, the shares would sell off at some point (like they always had over the previous decade).

In 2022, Fairfax's shares delivered a return of 21%. Most stocks got crushed in the bear market of 2022, so Fairfax's performance compared to the market averages was exceptional (+40% compared to the S&P500). That same investor, looking at Fairfax in early 2023, might have come to the same conclusion: 'Dang, missed that one! For the second year in a row!' and again decided to not invest in Fairfax. The fish story just got a little bigger.

In 2023, Fairfax's shares delivered a return of 55%. What? A third year in a row of significant outperformance compared to the market averages? Surely that meant that Fairfax's shares were now way overvalued - that's the only thing that could explain Fairfax's improbable run over the previous 3 years. So, should a rational investor buy shares in Fairfax in early 2024? Are you kidding? No. Obviously the easy money has been made with this investment. Only a sucker would buy shares after the run they have had the past three years. Our fish story is turning in to a whopper of a tale.

What happened in 2024? After three great years, Fairfax must (finally) have had a terrible year in 2024… right? Nope. In 2024, Fairfax's shares delivered a gain of 51%. Over the past 4 years, Fairfax's shares have returned 308% (plus another $45/share in dividends), making it a '4 bagger' in Peter Lynch parlance (the stock is worth 4 times the amount initially paid for it).

Investors who did not buy shares (or those who sold their position way too early) are now left asking themselves… 'what happened?' How did they miss out on one of the great investments of the past four years? How did they let such a big fish keep slipping through their fingers - year after year? After all, it was right there - staring them right in the face! Our fish story just keeps getting bigger and bigger.

So here we are at the beginning of 2025… and investors who don't own the stock (or those who sold their position way too early) are once again asking themselves 'What do I do now?'

Fairfax, the 'big fish,' continues to taunt investors.

Fairfax's Share Price - 4 Year Performance versus the Market Averages							
Ex Dividends	Fairfax US$	Increase %	S&P500 US$	Increase %	S&P/TSX C$	Increase %
Dec 31, 2020	$341		3,756		17,433	
Dec 31, 2021	$492	44%	4,766	27%	21,223	22%
Dec 31, 2022	$594	21%	3,840	-19%	19,385	-9%
Dec 31, 2023	$921	55%	4,770	24%	20,958	8%
Dec 31, 2024	$1,390	51%	5,882	23%	24,728	18%
4-Year Total Increase		308%		57%		42%
4-Year CAGR		42%		12%		9%

What is one of the keys to being a successful investor?

In other posts we focus on what investors need to do to be successful. In this post we are going to flip the script and focus on mistakes investors have been making with Fairfax over the past 4 years. Avoiding common mistakes is a great way to improve returns.

Charlie Munger passed away a little over a year ago. In this post we honour Charlie, who was the master of inverting.

Avoid doing stupid things

> "It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent." *Charlie Munger*

Truth be told, many of the people who did well with Fairfax as an investment over the past 4 years likely didn't do well because they were smarter than most other investors. Rather, many did well simply because they avoided making big mistakes. Some of which are reviewed below.

In the remainder of this post, we are going to review 5 mistakes that some (many?) investors have made when analyzing Fairfax over the past 4 years:

1. Using a faulty investment framework.
2. Getting badly burned by a stock.
3. 'Past performance is the best predictor of future performance'
4. Missing out on a big winner (that you knew about).
5. Watching a stock you sold spike higher in price.

Brains/intellect mistake

The first mistake we are going to review is one of logic.

1.) Using a faulty investment framework.

Price (by itself) is a terrible investment framework to use to value a stock. Of course, what matters to value a stock is your estimate of the intrinsic value of the company and how it compares to its current share price.

Building a good investing framework

One of my all-time favourite books on investing is 'One up on Wall Street' by Peter Lynch. It was published way back in 1989. And it is full of investing wisdom - it has many useful mental models to help investors build out their investing framework. And because mental models don't have a shelf life - they are still very useful for investors today.

> 'Ive Got It, I've Got It. What Is It?' – *Peter Lynch - One Up on Wall Street*

As outlined in Chapter 7 of his book, before trying to value a stock, Lynch would first drop it in to one of 6 categories:

- Slow growers – 'Large and aging companies that are expected to grow slightly faster than the GNP.' P100
- Stalwarts - 'These multibillion-dollar hulks are not exactly agile climbers, but they're faster than the slow growers.' P104
- Fast growers - 'These are among my favourite investments: small, aggressive new enterprises that grow 20 to 25 percent a year. If you choose wisely, this is the land of the 10- to 40-baggers.' P108
- Cyclicals - 'A cyclical is a company whose sales and profits rise and fall in regular if not completely predictable fashion.' P109
- Turnarounds - 'Turnaround candidates have been battered, depressed, and often can barely drag themselves into chapter 11.' P113
- Asset plays - 'An asset play is any company that's sitting on something valuable that you know about, but that the Wall Street crowd has overlooked.' P115

Why did Lynch categorize stock opportunities?

> 'Putting stocks in categories is the first step in developing the story. Now at least you know what kind of story it's supposed to be. The next step is filling in the details that will help you guess how the story is going to turn out.' *Peter Lynch – One Up on Wall Street - P120*

Classifying stocks properly at the beginning of the process is critical. Because the classification determines the proper method to use to analyze and then to value the stock.

Categorize => Develop the story => Analysis/forecasts and valuation => Buy (or not) decision

An important point is your goal as an investor is not to try and clone other great investors, like Lynch. That is impossible. The key is to copy the parts that resonate and fit with your intellect/psychological wiring. I like the idea of categorizing stocks - but I don't try and shoehorn all stock opportunities into one of Lynch's 6 categories listed above. I am a flexible.

There is a second important insight

> Companies don't stay in the same category forever. Over my years of watching stocks, I've seen hundreds of them start out fitting one description and end up fitting another.'
>
> *Peter Lynch - One Up on Wall Street - P118*

Over time, some companies move from one category to another.

This highlights the importance of monitoring what is happening at a company (management, fundamentals, business results, prospects). It its critically important to be open minded, flexible and to be rational with what you learn. Because this will help ensure you continue to categorize the company properly. Especially those companies that have lots of things going on. You need to be able to recognize when a change in classification is appropriate.

What does this have to do with Fairfax?

Over the past decade, it looks to me like Fairfax has changed 'categories' 3 times. This is very unusual - most companies don't change categories once. This is likely an important reason why many investors have missed the opportunity - they had the stock categorized improperly.

Below is a highly simplified summary of how I have categorized Fairfax over the past decade:

1.) Pre-2019: 'old Fairfax'
- Ok P/C insurance business. Below average investment management business.

2.) 2019-2021: Turnaround
- Fixing the investment management business (hedges/shorts/investment framework).

3.) 2022-2023: 'new Fairfax' - an improved version of 'old Fairfax'
- Ok P/C insurance business. Ok investment management business.

4.) 2024 to today: Fairfax - a high-quality company
- Above average P/C insurance business. Above average investment management business. Best in class management team.

Information advantage

In 2020, no one - investors or analysts - were following Fairfax. It was a hated company. So, the few investors who were following the company also had a big information advantage.

They were able to recognize the many positive changes that were happening under the hood at Fairfax - a year or so before they actually showed up in the financials. It was like having a crystal ball. All an investor had to do was buy the stock, get their position size right and then be patient.

As we begin 2025, the information advantage has shrunk. But my guess is lots of investors/analysts today are categorizing Fairfax the wrong way - they are stuck in 'Ok P/C insurance business. Ok investment management business.' And this will likely cause them to use the wrong method to analyze and value the stock.

My guess is Fairfax's P/C insurance business, investment management business and senior management team are all better than most think. As a result, like the past 4 years, I expect Fairfax to continue to outperform the expectations of investors/analysts (in terms of growth in intrinsic business value). This usually is a pretty good set up for a stock (it usually means it is being undervalued).

Psychological traps

The remaining mistakes we will review are the result of using faulty mental models. They get into the behavioural part of investing, that Munger so often talked about.

2.) Getting badly burned by a stock

'Hand on the stove' problem: Getting badly burned by a stock is usually a really hard thing to overcome. The mental and financial scars are real. Once this happens, it is really hard to look at the company and be objective. This is probably a much bigger problem for institutional investors (because of the hit to their reputation from putting clients in a chronically poorly performing stock) than individual investors.

Fairfax's stock delivered a lost decade for shareholders (2010 to 2020). It was not a fun time to be a shareholder. Facts are facts.

What is the solution? Time. It can take years to work up the courage to go back in the water.

3.) Past performance is the best predictor of future performance

Investors use lots of rules of thumb when they analyze stocks (called heuristics). This is one of them. 'Rules of thumb' can be very helpful. But they also have their limitations.

How an investment has performed in the past (accounting results, management and share price) is important to understand. But they are not all an investor needs to look at.

For example, accounting results tell you what has happened in the past. They don't tell you what is going to happen in the future. And they certainly don't tell you what a company is worth or how it should be valued.

This is especially true for a turnaround play - like Fairfax was back from 2019 to 2021.

For a turnaround that has successfully turned around, focussing on past performance will usually not help much. Actually, it is worse than that. Focussing on past results/management decisions will likely lead an investor to materially underestimate the fundamentals of the company and its future earnings. This will lead them to materially undervalue the stock. And this will often cause them to not invest - or to sell a winning position way too early. Exactly what we saw play out with Fairfax year after year.

What is the solution?

Understand that while being useful, 'rules of thumb,' don't always work. Be inquisitive. And be open minded with what you learn.

4.) Missing out on a big winner (that you knew about).

It is really hard to buy a stock that is rising in price. Especially if you researched it early on and didn't pull the trigger (buy any shares). This can be a big problem for many value investors - because buying a stock that is rising in price just doesn't rhyme with 'buy low'.

And watching the stock just keep powering higher (that you didn't buy) is about as much fun as repeatedly getting punched in the nose - it just doesn't feel very good.

So, what do investors do?

For starters they probably take the stock off their watch list - out of sight/out of mind. That makes them feel better. And they say things like 'I'm not going to chase it' - because it sounds smart to them at the time. Bottom line, they avoid the stock.

Of course, if the stock is a big winner (like Fairfax has been)… well, this strategy is really dumb. Ignoring the big winners is a really hard way to outperform the market averages, let alone make the big money. Especially if you understand the company/industry (i.e. it is in your circle of competence to begin with).

What is the solution? Be rational - your brain (and investment framework) needs to over-rule your gut (emotions).

5.) Watching a stock you sold spike higher in price.

How many times have you sold a winning stock way, way too early? Only to regret it year after year after year… as it keeps powering higher. And you think of what could have been… (A good example of this for me was Berkshire Hathaway's stock back in the 2000's.)

It is really hard for most investors to buy back a stock that they sold when it is now trading at a much higher price. This mistake is the sister of the one we just discussed.

But what do you do when you realize this has happened? Do you buy it back? No, of course not. Because… well, we just reviewed all the reasons in 3.) so we won't review them again.

What to do? Get better with your sell strategy.

Most people spend most of their time thinking about what/when to buy a stock. They spend very little time on why/when to sell. So, their sell strategy is not very sophisticated - and this leads them open to making behavioural mistakes, like selling a winning position way too early - for not good reasons.

Conclusion

'Investing is simple (not easy).' *Charlie Munger*

What makes investing so difficult?

The biggest mistakes made by investors are often driven by behavioural mistakes.

Emotions are an unseen driver of our investment decisions. They can distort/warp a well thought out investment framework. In turn, this can result in poor decisions and sub-optimal returns.

It is critical to recognize that emotions (behavioural factors) are a part of the investment process - because we are human beings (not robots). But emotional responses can't be allowed to knock your ship off its intended course.

As a result, you must be constantly on your guard. It is important to self-reflect - and to be honest with yourself with what you learn. Make adjustments as needed. It's important to ensure your emotions aren't what is sitting in the captain's chair.

Given its incredible run over the past 4 years, is Fairfax's stock still a buy today?

The answer is simple. It will depend on your estimate of what the intrinsic value of the company is today. And how it compares to the price of the stock. And as Munger reminds us, that is also the hard part. (And make sure you don't fixate on the price move of the stock over the past 4 years - or that fish story is likely to turn into even more of a whopper of a tale.)

Narrative

Narratives for companies take years to get established. And once established, they are very slow to change (taking years). This works for most companies - where things change slowly.

For the past 5 years, it looks to me like the narrative for Fairfax has been continuously running about 12 to 24 months behind what is actually going on 'under the hood' at the company (management, fundamentals/business results, prospects).

Interestingly, it looks like the stock price is a leading indicator of the change in narrative. (The narrative only changes after the stock price has gone up.)

Change in fundamentals => change in share price => change in narrative

PS: This process is really apparent when you read analyst reports on Fairfax from the past 4 years.

Chapter 8: Leverage – Part 1 – Float

In the next two chapters we are going to explore the very important topic of leverage.

We define leverage in a very broad way: **Using other people and/or their money to boost returns and/or improve the quality of the company.**

Fairfax uses may different kinds of leverage. The most important – by far – is float. So that is what we will start with. It is so important it will get its own chapter. In the next chapter we will discuss the many other ways that Fairfax uses leverage.

Float – Lost Treasure? An Introduction.

Updated June 30, 2025

Like Indiana Jones, today we are going to set out on an adventure in search of long-lost treasure. Something that most investors appear to have forgotten about. What do the legends tell us? Does it really exist or is it just myth?

What am I talking about?

P/C insurance float (I'll just call it 'float' moving forward).

Float is such a big (and important) topic we are going to tackle it in three posts:

1. Introduction.
2. Theory - what is float? Our teacher will be Warren Buffett.
3. Applying theory to practice. We will look at the float of Fairfax Financial.

Introduction: Ancient history

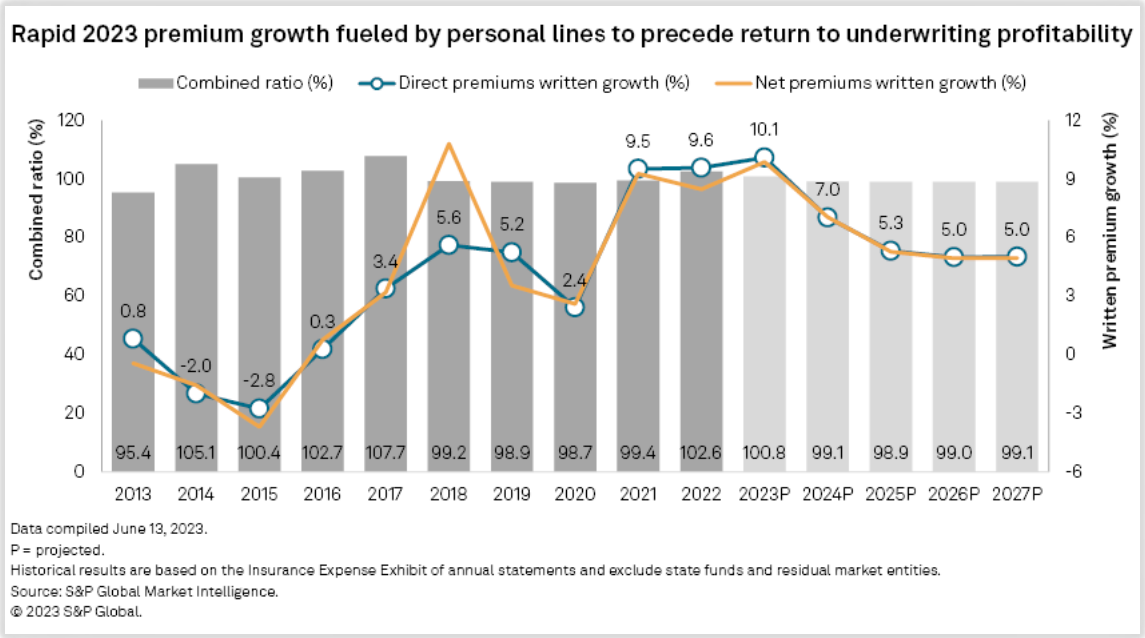
Thirty years ago, talking about float was all the rage for P/C insurance. Read old articles on investing in P/C insurance companies and a discussion of float will usually be front and center. And the champion of float from that era was, of course, Warren Buffett and his company Berkshire Hathaway.

So, what happened?

Why has float apparently settled into the dustbin of history and become a relic of the past?

1. Due to competitive insurance markets, industrywide underwriting profit has remained low for the past decade. Until recent years, top line organic growth had slowed to a crawl.
2. Returns on investments fell: P/C insurers put most of their investments into fixed income instruments. In their battle with deflation, global central banks took interest rates all the way into negative territory. The US 10-year treasury traded at a yield below 0.60% in August of 2020 and traded with a yield below 1.5% for much of 2021.

S&P Global: US P/C Insurance Market Report



Float lost its value

Breaking even on underwriting for a decade while returns on investments were plummeting made having float far less valuable than at any point in recent history.

Another small factor: over the years, P/C insurance has become a much smaller part of Berkshire Hathaway's business model. What did Buffett have to say about float in his 2022 letter to shareholders? Float is mentioned 4 times in one short paragraph - telling investors to go somewhere else if they wanted to learn more. Does this sound important to you? So 'float' also lost its biggest cheerleader.

Does this mean… Float is dead? Long live float?

No, of course not. Just because float is no longer appreciated (or discussed) doesn't mean it doesn't matter. In fact, for those paying attention, the world has changed again. The conditions that made float a big deal 30 years ago have returned:

1. Insurance has been in a hard market since about Q4 of 2019 - above average insurance companies are seeing significant top-line growth (supply of float) and improving underwriting results (cost of float) over the past five years.

2. Global central banks now have an inflation fight on their hands - and 'higher for longer' is becoming the new mantra for interest rates. Fixed income yields have spiked higher across the curve. The 10-year US treasury closed recently with a yield of 4.70%, a level where it last traded at in 2007. As a result, returns on float are improving greatly.

Both of these developments make having float today extremely valuable.

Except remember… pretty much everyone has forgotten about float.

What's old will be new again.

Well, my guess is this is about to change. I think investors are going to get interested in float again.

What is going to cause the change?

A new generation of investors are about to discover something Warren Buffett hit on when he bought National Indemnity back in 1967: float, under certain conditions, can be a license to print money. Those 'certain conditions' have returned. And in recent years a few insurance companies have started up the printing presses and are now starting to print money.

Float – What Can Warren Buffett Teach Us?

Updated June 30, 2025

P/C insurance float: the basics

Float is deceptive. It is kind of like compound interest as a concept. It is easy to define but very hard to actually understand.

Who better to teach us about P/C insurance float than the old master himself, Warren Buffett.

Float: the basic building block to use to evaluate a P/C insurance company

Back in the 1990's, Warren Buffett was using P/C insurance as the core engine to drive Berkshire Hathaway's profit growth. GEICO was purchased in 1996 and General Re was purchased in 1998. Given the importance of P/C insurance to Berkshire Hathaway, Buffett provided the following as a guide to help shareholders understand P/C insurance as an investment.

> "With the acquisition of General Re — and with GEICO's business mushrooming — it becomes more important than ever that you understand how to evaluate an insurance company. The key determinants are:
>
> 1.) the amount of float that the business generates;
> 2.) its cost; and
> 3.) most important of all, the long-term outlook for both of these factors."
>
> *Warren Buffett – Berkshire Hathaway 1998AR*

Well, Warren appears to be saying float is the most important thing to understand when evaluating an insurance company. Interesting, given how little press float gets today from analysts and investors.

What is float?

> "To begin with, float is money we hold but don't own. In an insurance operation, float arises because premiums are received before losses are paid, an interval that sometimes extends over many years." *Warren Buffett – Berkshire Hathaway 1998AR*

Float is money a P/C insurer has that it can use to invest. It is an asset (benefit) but it is a liability (not equity). It is kind of like a very sticky deposit at a bank (a deposit is also a liability for a bank).

Because float is a liability, it is also leverage. Like all leverage (i.e. debt), float can be both good or bad - and this depends on the cost paid over time to hold the float.

What is the cost of float?

> "Typically, this pleasant activity (the P/C insurance business) carries with it a downside: The premiums that an insurer takes in usually do not cover the losses and expenses it eventually must pay. That leaves it running an "underwriting loss," which is the cost of float. **An insurance business has value if its cost of float over time is less than the cost the company would otherwise incur to obtain funds.** But the business is a lemon if its cost of float is higher than market rates for money." *Warren Buffett – Berkshire Hathaway 1998AR*

Underwriting determines the 'cost' of float.

This point is critical. Over time, if an insurer can produce an underwriting profit on its insurance business that means the cost of its float is actually a benefit - it is better than free. **That means the insurer is actually getting paid to hold the float.**

Float is a pile of money that an insurance company can actually earn two income streams from: underwriting (if float is obtained at a benefit) and investing.

Sounds like Buffett was on to something when he decided to invest in P/C insurance companies.

To summarize: according to Buffett, a good P/C insurance company:

1. Has a large amount of float.
2. Is a good underwriter - is able to generates the float at a favourable cost (ideally a benefit).
3. Has a good long term track record - of both growing float and as a solid underwriter.

Buffett's secret sauce: P/C insurance float

Buffett's genius has really been two-pronged:

- Use P/C insurance float as an ever-increasing low cost (free) source of capital/leverage to push profits higher.
- Reinvest these growing profits into great companies/equities outside of insurance – these businesses then generate new income streams.
- Both P/C insurance and non-insurance operating companies/equities become compounding machines over time.

OK. So. there is a quick review of float, explained with the help of Warren Buffett.

To help us understand float even better, let's look at it now from a balance sheet perspective.

Float and the balance sheet

Let's create an imaginary insurance company - called Random P/C Insurance Co - and create a fictitious balance sheet.

Our company has $80 billion in assets, with $60 billion in liabilities and $20 billion in common shareholders' equity. Of the total liabilities of $60 billion, float is $30 billion. The summary of the balance sheet is below:

Random P/C Insurance Company				
Consolidated Balance Sheet			A - L = E	
	US$bn			
Assets	$80.0			
Liabilities	$60.0	→	$30	Float
Common Equity	$20.0			

We are also going to assume common shareholders' equity = book value.

We are going to make up more numbers below. We are using numbers that make our calculations easy. Please don't focus too much on the exact numbers. Instead, focus on the information they are trying to convey - especially about leverage.

Cost of float

Let's assume our insurance company is a slightly above average underwriter with a combined ratio (CR) of 96 - this translates into a 'benefit' of float (better than free - our company is actually getting paid to hold their float).

Return on investments (which includes float)

Let's assume our insurance company is above average in terms of the return it earns from its total investments (which includes float) - let's assume it earns 8% on average.

We are also going to assume there are no taxes.

The return of Random P/C Insurance Co

When we put the two together, we get:

1. Benefit of float (CR of 96)
2. Return on investments = 8%

Let's assume Random P/C Insurance Co earns a total return of 10% on its float.

This means our insurance company is earning the following:

- $30 billion float x 10% = $3 billion.

Can we calculate the actual leverage provided by the float?

Yes. Total earnings from float of $3 billion will flow though the income statement and increase retained earnings, which will then flow through to the balance sheet and increase both assets and common shareholder equity by $3 billion.

So, a return from float of 10% results in an increase in common shareholders' equity of 15%.

Random P/C Insurance Company				
Return generated by float only			**YOY Change**	
	Year 1	**Year 2**	**$**	**%**
Assets ($bn)	$80.0	$83.0		
Liabilities	$60.0	$60.0		
Common Equity	$20.0	$23.0	$3.0	15%

The leverage can be calculated as follows: total float / common shareholders' equity.

In our example:

- float of $30 billion / common shareholders' equity of $20 billion = 1.5 x leverage

Float leverage of 1.5 times, means:			
Return on float of:	5%	10%	15%
Delivers Return on Equity (ROE)	7.5%	15%	22.5%

Common equity, debt and total investments

The above increase in common shareholders' equity was driven solely by float. A company is also going to generate earnings from its common shareholders' equity - the funds provided by shareholders. Perhaps it also uses a little debt to generate even more earnings. Any returns generated by its other investments (those other than float) need to be added to the numbers above.

Below, Buffett summarizes how float fits into the big picture

"In more years than not, our cost of funds has been less than nothing. This access to "free" money has boosted Berkshire's performance in a major way.

"Any company's level of profitability is determined by three items:

1. what its assets earn;
2. what its liabilities cost; and
3. its utilization of "leverage" - that is, the degree to which its assets are funded by liabilities rather than by equity.

"Over the years, we have done well on Point 1, having produced high returns on our assets. But we have also benefitted greatly - to a degree that is not generally well-understood - because our liabilities have cost us very little. An important reason for this low cost is that we have obtained float on very advantageous terms. The same cannot be said by many other property and casualty insurers, who may generate plenty of float, but at a cost that exceeds what the funds are worth to them. In those circumstances, leverage becomes a disadvantage.

"**Since our float has cost us virtually nothing over the years, it has in effect served as equity.** Of course, it differs from true equity in that it doesn't belong to us. **Nevertheless, let's assume that instead of our having $3.4 billion of float at the end of 1994, we had replaced it with $3.4 billion of equity.** Under this scenario, we would have owned no more assets than we did during 1995. We would, however, have had somewhat lower earnings because the cost of float was negative last year. That is, our float threw off profits. And, of course, to obtain the replacement

equity, we would have needed to sell many new shares of Berkshire. **The net result - more shares, equal assets and lower earnings - would have materially reduced the value of our stock. So you can understand why float wonderfully benefits a business - if it is obtained at a low cost.**"

Warren Buffett – Berkshire Hathaway 1995AR

Float is better than equity?

This question is a bit of a mind bender. Because of its unique 'cost' (i.e. low cost or even a benefit), in the past Buffett has said that he views float as being better than equity.

"Since 1967, when we entered the insurance business, our float has grown at an annual compounded rate of 21.7%. Better yet, it has cost us nothing, and in fact has made us money. **Therein lies an accounting irony: Though our float is shown on our balance sheet as a liability, it has had a value to Berkshire greater than an equal amount of net worth would have had.**"

Warren Buffett – Berkshire Hathaway 1997AR

Well, suggesting float is better than equity is perhaps a bridge too far. However, I think we can conclude that float matters a great deal. Especially today in a high interest rate world.

Conclusion

OK. So now we know what float is and the key metrics to use to evaluate P/C insurers. Who should we start with? That is an easy question to answer. In our next post, we will do a deep dive on float at Fairfax Financial to see what we can learn.

_____

YouTube Video Explaining P/C Insurance Float

How Warren Buffett Achieves Great Returns Every Year - Advantages of Insurance Float

https://youtu.be/XCL0GRPQKAk

Fairfax Financial and Float - A Deep Dive

June 30, 2025

In my last post I reviewed the world of P/C insurance float, largely through the writings of Warren Buffett - a pretty knowledgeable guy on the subject. In this post we are going to pivot to the real world and try and apply what we learned to Fairfax Financial.

Summary of the topics on float and Fairfax that we will explore in this post:

- A quick review of financial leverage
- Size of float
- Leverage provided by float
- Growth of float
- Cost of float
- Returns being achieved on float
- Summary

A quick review of financial leverage

Balance Sheet: Assets (A) = Liabilities (L) + Equity (E)

To grow (increase assets) a company can issue a liability like debt (borrow) or equity (shares).

Borrowing (a liability) is simply a way to use other people's money to finance growth / business activities. Using borrowed money to grow/invest is a financial strategy referred to as leverage.

Why use leverage to grow? To increase the return on equity. If equity stays constant but a firm can grow assets, which in turn grows earning, that will result in a higher return on equity.

What is the rub? There is a cost to borrow, which is the interest rate charged on the loan. And today, with interest rates elevated, the cost is high (compared to recent history).

What does this have to do with P/C insurance companies?

P/C insurance companies are unique animals. Through the course of their business operations, they generate something called float. Float is the money held by insurance companies when they receive premiums that has not yet been paid out to claimants.

Like debt, float is other peoples' money so it is technically a liability. Like debt, float can be used to purchase investments on the asset side of the balance sheet. The investments purchased with float will then grow total earnings, which results in a higher return on equity for the company.

Growing float (L) = growing investments (A) = growing earnings = growing equity (E) = higher return on equity (ROE).

What is the rub? There is a cost to float and it is determined by underwriting (combined ratio). If an insurer is able to generate an underwriting profit over time, the cost of float is free (actually better than free… the 'cost' is a benefit).

So, for P/C insurance companies float provides a low cost (potentially free), sticky source of capital that can be invested in assets to boost earnings and return on equity (ROE).

Let's now see how all of this applies to Fairfax.

How much float does Fairfax have?

At December 31, 2024, Fairfax had $36.9 billion in total float. However, to make our analysis more meaningful, we need to make 2 adjustments to this number:

1. Remove float from runoff - Fairfax separates runoff when reporting underwriting results so to be consistent we will remove runoff float from our analysis. In this post we will only be looking at float for insurance/reinsurance at Fairfax.
2. Remove minority interests - small amounts of Allied World, Odyssey and International are owned by minority shareholders. We need to adjust float to account for this. By removing the share of float that accrues to minority shareholders we are left with the amount of float that accrues to Fairfax's common shareholders, which is really the number we care about.

After making the 2 adjustments outlined above, at December 31, 2024, Fairfax had $32.7 billion in float working for common shareholders (I am going to call this 'adjusted float' in the remainder of this post.) Adjusted float was $1,507/share.

Fairfax: Adjustments To Total Float	
December 31, 2024	**Total**
Total Float ($bn)	$36.9
Less Runoff Float	-$1.5
Insurance and Reinsurance Float	$35.4
Less Minority Interests	-$2.7
Adjusted Float ($bn)	**$32.7**
Per Common Share (21.7 million)	**$1,507**

Fairfax Float: Insurance and Reinsurance Adjusted for Minority Interests								
Dec 31, 2024	**NB**	**Odyssey**	**Crum**	**Zenith**	**Brit**	**Allied**	**Other**	**Total**
Fairfax Owns	100%	90%	100%	100%	100.0%	83.4%	90%	**92%**
Re/Insur. Float	$2.8	$9.2	$5.7	$1.0	$4.7	$8.8	$3.1	**$35.4**
Minority Share	$0.0	$0.9	$0.0	$0.0	$0.0	$1.5	$0.3	**$2.7**
Fairfax Share	**$2.8**	**$8.3**	**$5.7**	**$1.0**	**$4.7**	**$7.3**	**$2.8**	**$32.6**

Now that we know the size of Fairfax's float, let's now look at it in relation to Fairfax's total balance sheet.

What is the leverage provided by Fairfax's adjusted float?

Common shareholders' equity at Fairfax was $23.0 billion at Dec 31, 2024. As we just learned above, adjusted float is $32.7 billion. **Adjusted float is 1.42 x bigger than common shareholders' equity.**

The leverage is 1.42 times (adjusted float of $32.7 / common shareholders' equity of $23.0). That means every 1% gain from float = 1.4% gain in common shareholders' equity (ROE = 1.4%)

So, if float delivers an 8% return to Fairfax that will boost common shareholder's equity by 11.4% (deliver an ROE = 11.4%) all by itself.

Fairfax			A - L = E	
Consolidated Balance Sheet				
Dec 31, 2024	US$bn		Insurance and Reinsurance	
Assets	$96.8		Fairfax's Share	
Liabilities	$68.4	→	$32.7	Adjusted Float
Equity	$28.4			
			Adj Float to Common Equity	
Common Shareholders' Equity	$23.0	→	1.42	Leverage

How much has total float grown in recent years at Fairfax?

Please note, in this section we will use the float numbers for insurance/reinsurance (runoff is excluded). However, I did not separate out minority interests. It would have been a lot of work and it wouldn't have materially changed the conclusions (the growth numbers) - which is what we care about here.

The float of insurance/reinsurance has been growing rapidly at Fairfax for many years:

- From 2014 to 2024 (10 years), float grew from $11.6 to $35.4 billion, an increase of 205%.
  - This is a CAGR of 11.8% per year.
- From 2015-2017, growth was fuelled primarily by acquisitions (Brit, international and Allied World).
- From 2020-2024, growth was fuelled primarily by organic growth (insurance hard market).
- 2025 should see mid-single digit growth in float driven by a continuation of the hard market.

The management team at Fairfax has done a fantastic job of growing float over the past 10 years. And the prospects for continued growth look good.

Fairfax - 10 Year Change in Float			
	Re/Insurance Float		
31-Dec	$b	Change	Per Share
2014	$11.6		$547
2015	$13.7	18%	$617
2016	$13.8	1%	$597
2017	$20.2	46%	$727
2018	$19.7	-2%	$724
2019	$20.6	5%	$769
2020	$22.7	10%	$866
2021	$25.9	14%	$1,084
2022	$29.6	14%	$1,270
2023	$33.4	13%	$1,452
2024	$35.4	6%	$1,631
10-Yr	**$23.8**	**205%**	
10-Yr CAGR		**11.8%**	

What is the cost of float? What is the trend?

Like borrowing money, float is a liability. Like all leverage (i.e. debt), float can be both good or bad - and this depends on the cost paid over time to hold the float.

The 'cost' of float is measured by looking at underwriting results and the combined ratio. Fairfax excludes runoff when it reports underwriting results and the combined ratio (CR) so we can use their numbers in this section.

Summary:

- From 2014-2024 (10 years), the CR at Fairfax averaged 95.2%
    - From 2018-2020, the CR ticked higher and averaged 97.3%
    - For 2021-2024, the CR ticked lower and averaged 93.9%

- For 2025, my current estimate for the CR is 94%

Fairfax has consistently earned an underwriting profit on its adjusted float. This means that is has been able to secure $32.7 billion in adjusted float on very favourable terms. In fact, the 'cost' of float is better than free - it is a benefit. I know, that sounds crazy - but it is true.

This is why Buffett has said in the past that he views float as being more valuable than a similar amount of equity. That statement is a real mind bender.

What is driving the improvement in the combined ratio in recent years?

My guess is two factors are driving the improvement:

1. The hard market in insurance (began in Q4, 2019) - resulting in higher prices and better terms and conditions.
2. Slow incremental improvement in the quality of Fairfax's collective insurance businesses - resulting in better underwriting results. This is being driven by Andy Barnard and the leaders of the various insurance companies.

Fairfax - 10 Year Change in Float					
	Re/Insurance Float			Comb	(Cost) Benefit of
31-Dec	$b	Change	Per Share	Ratio	Float
2014	$11.6		$547	90.8%	9.2%
2015	$13.7	18%	$617	89.9%	10.1%
2016	$13.8	1%	$597	92.5%	7.5%
2017	$20.2	46%	$727	106.6%	-6.6%
2018	$19.7	-2%	$724	97.3%	2.7%
2019	$20.6	5%	$769	96.9%	3.1%
2020	$22.7	10%	$866	97.8%	2.2%
2021	$25.9	14%	$1,084	95.0%	5.0%
2022	$29.6	14%	$1,270	94.7%	5.3%
2023	$33.4	13%	$1,452	93.2%	6.8%
2024	$35.4	6%	$1,631	92.7%	7.3%
10-Yr	**$23.8**	**205%**		95.2%	4.8%
10-Yr CAGR		**11.8%**			

So, float has been growing at 11.8% per year for the past 10 years. And the 'cost' has actually been better than free - a 'benefit' - over the same time frame.

But the story gets even better.

Why? Return.

What is the return Fairfax has been earning on its float?

Fairfax has $32.7 billion in adjusted float that is invested and earning a return for shareholders.

For reference, the total investment portfolio at Fairfax was about $69 billion at Dec 31, 2024. Adjusted float of $32.7 billion represents 47.4% of total investments. It is significant.

In this section we are going to look at Fairfax's return on total investments. We are not going to try and break out Fairfax's returns specific to float (which is a part of total investments). Again, we are

coming at this analysis at a very high level. If we subscribe a lower-than-average return to float (by assuming it is more skewed to short-term fixed income investments) we would then need to attach a higher return to Fairfax's non-float investments to get to the correct average number.

Instead, we are going to keep our analysis simple and use Fairfax's average return on total investments as a very rough estimate for what is being earned on adjusted float.

From 2018 to 2022 (5 years), Fairfax's total return on investments averaged about 4.7% per year. Not surprisingly, a big drag was the fixed income portfolio. Fairfax's interest and dividend income (a reasonable proxy for the return on the fixed income portfolio) delivered an average return of about 2.4% from 2018 to 2022.

Today? In 2024, Fairfax earned a total return of 7.8% on its investment portfolio. That is a significant increase from the 5-year average return of 4.7% from 2018-2022.

What are the biggest drivers of the increase in total return?

- Interest and dividend income delivered a return of 5.1% in 2024.
- Equity holdings also performed well in 2024.
- Since 2018, Fairfax has been making very good capital allocation decisions - with the benefits increasingly showing up in reported results.

What about future returns?

Fairfax has extended its fixed income portfolio from 1.2 years at Dec 31, 2021 to more than 3 years at December 31, 2024. This locks in higher interest rates for the next 3 to 4 years.

It seems reasonable to expect the management team at Fairfax to continue to make good capital allocation decisions.

Bottom line, Fairfax looks well positioned to continue to deliver strong investment returns moving forward. My current estimate has Fairfax earning a return of about 7.7% on its growing investment portfolio in 2025.

Fairfax - 10 Year Change in Float					(Cost)	Total	Only	`
					Benefit	Return	Interest	Shares
	Re/Insurance Float			Comb	of	All	And	Out-
31-Dec	$b	Change	Per Share	Ratio	Float	Investments	Dividends	standing
2014	$11.6		$547	90.8%	9.2%		2.0%	21.2
2015	$13.7	18%	$617	89.9%	10.1%		2.3%	22.2
2016	$13.8	1%	$597	92.5%	7.5%	-1.6%	2.5%	23.1
2017	$20.2	46%	$727	106.6%	-6.6%	12.4%	1.8%	27.8
2018	$19.7	-2%	$724	97.3%	2.7%	0.5%	2.8%	27.2
2019	$20.6	5%	$769	96.9%	3.1%	7.6%	3.1%	26.8
2020	$22.7	10%	$866	97.8%	2.2%	0.7%	2.4%	26.2
2021	$25.9	14%	$1,084	95.0%	5.0%	12.1%	1.5%	23.9
2022	$29.6	14%	$1,270	94.7%	5.3%	2.6%	2.3%	23.3
2023	$33.4	13%	$1,452	93.2%	6.8%	10.4%	4.4%	23.0
2024	$35.4	6%	$1,631	92.7%	7.3%	7.8%	5.1%	21.7
10-Yr	**$23.8**	**205%**		95.2%	4.8%			
10-Yr CAGR		**11.8%**						

Ok. Let's try and summarize everything.

What have we learned about Fairfax and its float?

1. Adjusted float is $32.7 billion. It has been compounding at 11.8% per year for the past 10 years.
2. 'Cost' of float is actually a benefit - and the benefit has increased in recent years.
3. The average return Fairfax is earning on its total investments came in at 7.8% in 2024 and it is estimated to be 7.7% in 2025, up significantly from an average of 4.7% from 2018 to 2022.

When looking at float, all three of the most important metrics are moving to the benefit of Fairfax and its shareholders:

- It is large and increasing in size.
- It is being obtained at a very favourable cost - better than free.
- And the return being achieved on its investments has spiked in recent years and the higher number looks sustainable.

Measured through the lens of float, Fairfax has a high quality and valuable P/C insurance business.

Berkshire Hathaway's Explanation of Float – BRK 2022AR – Page A2

BERKSHIRE HATHAWAY INC.
PROPERTY/CASUALTY INSURANCE*

Our property/casualty ("P/C") insurance business has been the engine propelling Berkshire's growth since 1967, the year we acquired National Indemnity and its sister company, National Fire & Marine, for $8.6 million. Today, National Indemnity is the largest P/C company in the world as measured by net worth. Insurance is a business of promises, and Berkshire's ability to honor its commitments is unmatched.

One reason we were attracted to the P/C business was the industry's business model: P/C insurers receive premiums upfront and pay claims later. In extreme cases, such as claims arising from exposure to asbestos, or severe workplace accidents, payments can stretch over many decades.

This collect-now, pay-later model leaves P/C companies holding large sums – money we call "float" – that will eventually go to others. Meanwhile, insurers get to invest this float for their own benefit. Though individual policies and claims come and go, the amount of float an insurer holds usually remains fairly stable in relation to premium volume. Consequently, as our business grows, so does our float. And *how* it has grown, as the following table shows:

Year	*Float (in millions)*
1970	$ 39
1980	237
1990	1,632
2000	27,871
2010	65,832
2020	138,503
2021	146,701
2022	164,109

We may in time experience a decline in float. If so, the decline will be *very* gradual – at the outside no more than 3% in any year. The nature of our insurance contracts is such that we can *never* be subject to immediate or near-term demands for sums that are of significance to our cash resources. That structure is by design and is a key component in the unequaled financial strength of our insurance companies. That strength will *never* be compromised.

If our premiums exceed the total of our expenses and eventual losses, our insurance operation registers an underwriting profit that adds to the investment income the float produces. When such a profit is earned, we enjoy the use of free money – and, better yet, get *paid* for holding it.

For the P/C industry as a whole, the financial value of float is now far less than it was for many years. That's because the standard investment strategy for almost all P/C companies is heavily – and *properly* – skewed toward high-grade bonds. Changes in interest rates therefore matter enormously to these companies, and during the last decade the bond market has offered pathetically low rates.

Consequently, insurers suffered, as year by year they were forced – by maturities or issuer-call provisions – to recycle their "old" investment portfolios into new holdings providing much lower yields. Where once these insurers could safely earn 5 cents or 6 cents on each dollar of float, they now take in only 2 cents or 3 cents.

Some insurers may try to mitigate their loss of revenue by buying lower-quality bonds or non-liquid "alternative" investments promising higher yields. But those are dangerous games and activities that most institutions are ill-equipped to play.

Berkshire's situation is more favorable than that of insurers in general. Most important, our unrivaled mountain of capital, abundance of cash and a huge and diverse stream of non-insurance earnings allow us far more investment flexibility than is generally available to other companies in the industry. The many choices open to us are always advantageous – and sometimes have presented us with major opportunities.

Our P/C companies have meanwhile had an excellent underwriting record. Berkshire has now operated at an underwriting profit for 18 of the last 20 years, the exceptions being 2017 and 2022. In 2017 our pre-tax loss was a whopping $3.2 billion. In 2022 the loss was minimal. For the entire 20-year span, our pre-tax gain totaled $29.2 billion.

That record is no accident: Disciplined risk evaluation is the daily focus of our insurance managers, who know that the rewards of float can be drowned by poor underwriting results. All insurers give that message lip service. At Berkshire it is a religion, Old Testament style.

As I have repeatedly done in the past, I will emphasize now that happy outcomes in insurance are far from a sure thing: Danger always lurks.

Mistakes in assessing insurance risks can be huge and can take many years – even decades – to surface and ripen. (Think asbestos.) A major catastrophe that will dwarf hurricanes Katrina and Ian *will* occur – perhaps tomorrow, perhaps many decades from now. "The Big One" may come from a traditional source, such as wind or earthquake, or it may be a total surprise involving, say, a cyber attack having disastrous consequences beyond anything insurers now contemplate. When such a mega-catastrophe strikes, Berkshire will get its share of the losses and they will be big – *very* big. Unlike many other insurers, however, handling the loss will not come close to straining our resources, and we will be eager to *add* to our business the next day.

** Reproduced from Berkshire Hathaway Inc. 2019 Annual Report and updated through 2022*

Chapter 9: Leverage – Part 2 – Debt, Equity, Tactical and Non-Financial

In the last chapter we began our exploration of the topic of leverage by looking at float – by far, the most important type of leverage that Fairfax uses. However, Fairfax uses leverage in a number of different ways. Some of the uses are traditional and some are non-traditional.

In this chapter we will explore the many other ways (other than float) that Fairfax uses leverage:

- An introduction to leverage

- Types of financial leverage used at Fairfax:
    - Debt – At the holding company & the re/insurance operating company level
    - Debt – At the non-insurance consolidated company level
    - Equity – At the holding company & the re/insurance operating company level
    - Tactical uses – FFH-TRS (late 2020) and Dutch auction (late 2021)

- Types of non-financial leverage used at Fairfax:
    - Non-financial capital - Human Capital

We will finish the chapter with an example:

- How Fairfax used leverage to aggressively grow its P/C insurance business (2015-2017)

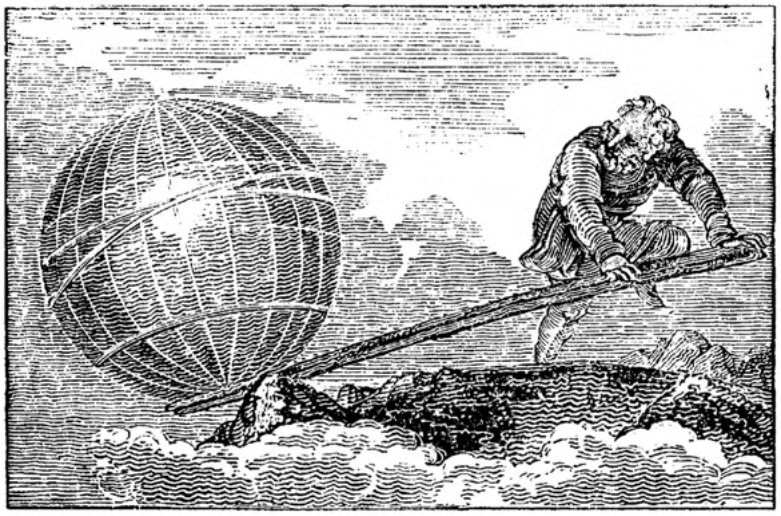
An Introduction to Leverage

June 16, 2025

Introduction

> "Give me a lever long enough and a fulcrum on which to place it, and I shall move the world."
>
> *Greek philosopher Archimedes*

The fulcrum needs to be rock solid and well placed. The longer the lever the more power it can exert. Used properly, leverage allows one person (or a company in our example today) to figuratively move the world.



Leverage

In our post today we are going to explore the concept of leverage. And what it means for Fairfax. To see what we can learn about the company today - and what it might mean for the company looking into the future.

Getting back to our picture above…

The fulcrum is Fairfax's business model. (Company structure. P/C insurance business. Investment management business. People. Culture.) The lever is a sum of the various forms of leverage that Fairfax uses.

Let's get started.

Definition of leverage

We are going to define leverage in a very broad way:

Using other people and/or their money to boost returns and/or improve the quality of the company.

All forms of leverage come with a cost. The expectation is the return achieved will be greater than the cost involved.

This definition allows us to include both financial and non-financial kinds of leverage (which includes financial capital AND human capital).

When investors think of leverage they tend to focus on/think only about the financial piece, and debt specifically. Debt is one kind of leverage. But that is also a very narrow way to think about leverage. Especially when it comes to a company like Fairfax.

There are many different kinds of financial leverage. Like using equity. And float (which we reviewed in the last chapter). There are also many different kinds of non-financial leverage. Like human capital - having access to a large network of outstanding founders, entrepreneurs and CEO's.

In this Chapter we are going to review the many different ways that Fairfax uses leverage. I am going to stretch the definition - so much so that you might even disagree with me. I hope that happens - and you share your thinking. After all, engaging in constructive debate is how we all learn and get better as investors.

If we want to make people uncomfortable, a good way to do it is to challenge conventional wisdom.

Warren Buffett and leverage

> "If you're smart you don't need leverage; if you're dumb, it will ruin you." *Warren Buffett*

> "My partner Charlie says there is only three ways a smart person can go broke: liquor, ladies, and leverage. Now the truth is, the first two he just added because they started with 'L' – It's leverage."
>
> *Warren Buffett*

Before we go any further, we need to deal with the elephant in the room - yes, that guy named Warren Buffett.

Buffett is the GOAT. Many investors worship at the altar of Buffett. I am (generally) one of them.

What does Buffett have to say about leverage?

If you do a search online, Buffett probably has more great quotes on leverage than just about any other topic - and he is almost always telling investors that it is the devil and should not be used.

Is this true? Does Buffett really dislike leverage?

No, of course not. **Buffett loves leverage.** Buffett has said repeatedly that P/C insurance was the core engine that drove the fantastic returns that Berkshire Hathaway was able to deliver over the past 59 years.

What was it about the P/C insurance business that Buffett liked so much?

It was the enormous amount of low cost and growing float that it provided. And float is leverage.

Buffett also used leverage when he made his largest private company acquisition in 2009. A full 70% of the purchase price came from money that was supplied by other people (Berkshire Hathaway took on debt and issued shares).

Context matters

The lesson is leverage is not a four-letter word - it is not inherently good or bad. Yes, leverage can be bad. But it can also be good. Obviously, which one it is (good or bad) depends on how it is being used.

I know it sounds like blasphemy, but as investors there are some things we need to unlearn when it comes to Buffett's teachings. How to think about leverage is one of them (in the context of our post today).

Readers should try and keep an open mind as they keep reading…

Debt - At the Holding Company & Re/Insurance Operating Company Level

June 16, 2025

Fairfax borrows money to boost the returns it earns for shareholders.

At December 31, 2024, Fairfax had borrowed a total of $8.86 billion - at the holding company and re/insurance company level.

Fairfax - Debt Summary	
At December 31, 2024	$b
Holding company	$7.88
Re/insurance companies	$0.98
Total Borrowings	**$8.86**

This does not include the debt of the non-insurance operating companies (like Recipe or Thomas Cook India) as Fairfax does not guarantee this debt. We will come back to this topic later in the post.

What is the cost of the debt?

In 2024 total interest paid by Fairfax on this debt was $456.6 million. My very rough guess is Fairfax is paying an average interest rate on its debt of around 5.6%.

Importantly, the total amount of interest paid is tax deductible. So, the after-tax cost to Fairfax from holding debt is low.

Should an investor in Fairfax be worried about the amount of debt Fairfax is carrying?

For help here, we can lean on the ratings agencies. Specifically, AM Best (they are focussed on the P/C insurance industry).

What does AM Best think?

They have upgraded Fairfax's credit rating multiple times in recent years. Why?

"Fairfax's rating upgrades reflect the group's improved earnings in recent years and prospectively. In 2022, Fairfax deployed significant cash assets into higher-yielding fixed-income instruments, which bolstered reliable streams of dividend and interest income. At the same time, the group's underwriting performance recorded record profits despite elevated catastrophe activity. These enhanced returns have allowed the group to grow its capital base and further expand its projected run-rate for operating earnings in future cycles." *AM Best*

- https://news.ambest.com/PR/PressContent.aspx?refnum=36046&altsrc=2

Operating earnings have spiked higher

Over the past 4 years, operating earnings at Fairfax have spiked higher. From an average of $1 billion per year (from 2016 to 2020) to $5.3 billion in 2024. That is a seismic improvement. The quality of the earnings that Fairfax is delivering today has never been better. And look poised to grow further from here.

As we reviewed, Fairfax's total interest cost on its borrowings was $456.6 million in 2024. This is a small number compared to the operating earnings that Fairfax is delivering ($5.3 billion in 2024).

Fairfax - Operating Income	Average				
June 2, 2025	2016-20	2021	2022	2023	2024
Underwriting profit - ins & reins.	$191	$801	$1,105	$1,522	$1,791
Interest & dividends	$709	$641	$962	$1,896	$2,512
Share of profit of associates	$101	$402	$1,015	$1,022	$956
Operating income - ins & reins	**$1,001**	**$1,844**	**$3,082**	**$4,441**	**$5,260**
Per share	$39	$77	$132	$193	$243
Shares Outstanding Dec 31		23.9	23.3	23.0	21.7

Let's summarize our discussion on float and debt and what it means for shareholders of Fairfax.

Investment Leverage - Common Shareholders' Equity, Float and Debt

June 16, 2025

Adding all three together (common shareholders' equity + float + debt), Fairfax has $69 billion, or $3,171 per share, that it is able to invest to earn a return for shareholders.

Investment leverage

We can measure Fairfax's investment leverage by dividing the total by common shareholders' equity.

- $68.7 billion / $23 billion = 3.0x

Fairfax has very high investment leverage. This amplifies the impact of Fairfax's investment returns on its return on equity.

Fairfax - Common Shareholders' Equity, Float and Debt			Financial
At December 31, 2024	$b	per share	Leverage
Common shareholders' equity (CSE)	$23.0	$1,060	
Float	$36.9	$1,703	
Total debt - hold co + re/ins companies	$8.9	$409	
Total	**$68.7**	**$3,171**	**3.0**

What is the return of the investment portfolio?

Fairfax has an investment portfolio of $69 billion
Fairfax's investment portfolio is currently generating a pre-tax return of about 7.5% or about $5.175 billion per year. This is $240 per Fairfax share.

- Cost of debt was $457 million in 2024.
- 'Cost' of float was a benefit (underwriting profit) of $1.8 billion in 2024.

Is Fairfax's use of leverage boosting the earnings of the company?

Yes. Big time. This is a very powerful combination/result.

Fairfax's use of float and debt are examples of structural uses of leverage for Fairfax - a permanent part of the capital structure of the company. Debt and float both also fall on the liability side of Fairfax's balance sheet.

Debt - At the non-insurance consolidated company level – 'LBO light' and embedded leverage

June 16, 2025

> "Leverage does not have to be dangerous. Non-recourse debt on an asset can serve to make a large purchase more affordable. Taking out a non-recourse loan on an already owned asset can actually reduce risk, since the borrowed funds become yours, while the risk of loss is transferred to the lender." *Seth Klarman*

Fairfax's equity portfolio had a value of about $24.8 billion at June 5, 2025.

The equity holdings that are captured in the 'consolidated' bucket had a total value of about $4.3 billion, or 17% of Fairfax's total equity portfolio. These are holdings where Fairfax owns more than 50% and/or exerts control over the business.

Fairfax: Equity Portfolio: Split by Accounting Treatment

	June 5, 2025		Own / control	
A.) Mark to market	$ 12,288	50%	Own < 20%	
B.) Associates	$ 8,187	33%	Own 20 to 50%	Significant infl. but not control
C.) Consolidated	$ 4,288	17%	Own > 50%	Control
Total Equity Portfolio	**$ 24,763**	**100%**		

Fairfax has been aggressively growing the holdings in the 'consolidated' bucket of holdings. Over the past three years, Fairfax has made 5 different investments for total purchase consideration of $2 billion.

Fairfax - Growth of Consolidated Bucket of Equity Holdings

Year	Company	Total Purchase Amount	Comments
2022	Recipe	$342	Increased ownership from 46% to 84% (owns 100% today).
2022	Grivalia Hospitality	$194	Increased ownership from 33.5% to 78.4% (owns 85.2% today).
2024	Sleep Country	$881	Bought 100%
2024	Peak Achievement	$440	Increased ownership from 42.5% to 100%.
2024	Meadow Foods	$83	Increased ownership to 93.2%.
	Total (US$ m)	**$1,939**	

Where did the cash come from?

This is where the story gets interesting. Fairfax did not spend $2 billion in cash. It was much less than that. Fairfax used 'other people's money' to finance a large part of the total purchase price.

Usually debt. Equity in one case (Recipe also took on a minority partner with its take-private in 2022). **This is a form of embedded leverage.**

What is Fairfax doing?

With many of its recent large consolidated equity purchases, Fairfax is using a strategy that is similar to one used by private equity funds:

Leveraged buyout (LBO) merger and acquisition (M&A) model

The LBO M&A model used by private equity can be summarized as follows: Buy another company (using a lot of leverage). Improve its operations. Use the cash flow from the business to reduce leverage. Sell the company for a big profit five or more years later. A small up-front equity investment can deliver an exceptional rate of return over time.

The financial assets of the acquired company are used as collateral to obtain the debt financing. The debt is non-recourse to the financial sponsor.

The free cash flow of the acquired company is used to:

- Pay the interest costs.
- Pay down debt.
- Grow the business.

Funding most of the purchase price with debt applies a significant amount of leverage to the deal for the financial sponsor. As the debt is paid down, the value of the equity increases. **Because a small amount of equity was used to make the initial purchase, over time the return on equity for the financial sponsor can be quite large.**

For this model to work the company being acquired needs to have:

- A strong management team.
- Strong free cash flow generation - consistent and resilient (not highly cyclical).

Let's apply what we learned to Fairfax's many take-private deals from the past 3 years.

Fairfax's 'LBO light' M&A model

"If it If it looks like a duck, swims like a duck, and quacks like a duck, then it probably is a duck."

Fairfax is not a private equity shop. It is a P/C insurance company. As a result, it is going to 'tweak' the LBO M&A model described above to fit its business model. Fairfax made two important 'tweaks' to the traditional LBO M&A model with its consolidated equity purchases of the past few years:

- They go easy on the total amount of leverage they use (which lowers the risk).
- And they sometimes use both debt and equity as sources of leverage (which lowers the risk even more).
-

Because of how they execute the model, I call it 'LBO light.'

Fairfax has a stated return target of 15% when making equity investments. Using a modest amount of leverage helps Fairfax achieve this target.

Let's look at one example of what they did.

Sleep Country

In July 2024, Fairfax purchased publicly traded Sleep Country for total purchase consideration of $880 million. Fairfax paid $562.7 million in cash. The remaining $317.9 million came from borrowings. Fairfax supply 64% and 'other people' provided 36% of the total amount required to take Sleep Country private.

Importantly, the borrowings reside on Sleep Country's balance sheet and are non-recourse to Fairfax. The free cash flow from Sleep Country will be used to pay the interest costs, grow the business and pay down debt.

Fairfax's Purchase of Sleep Country
Transaction and Funding Details

	US$ m	Split
Total Purchase Consideration	$880.6	
Cash	$562.7	64%
Borrowings	$317.9	36%

What does Fairfax like about Sleep Country?

My guess is Fairfax likes:
- The senior management team.
- The size and stability of the earnings stream that Sleep Country is generating.
- The long-term prospects of the business.

Fairfax bought a quality business for a fair price. Exactly the sort of thing that many investors have been hoping Fairfax would do more of. Welcome to 'new Fairfax.'

Let's start to wrap this post up.

Why does Fairfax use debt with its non-insurance consolidated holdings?

1.) To achieve the long-term strategic goals of the company.
- To be opportunistic - strike when the opportunity presents itself.
- To make larger acquisitions.
- To make private/control acquisitions.

2.) To maximize value creation for shareholders.
- To improve the return profile of the acquisition.

Is Fairfax being responsible with its use of debt?

IMHO, it looks to me like Fairfax is being thoughtful and responsible with the amount of debt that it is using is at the non-insurance consolidated company level.

The big picture of what Fairfax is doing

Let's close off by reviewing what Fairfax is doing with its non-insurance consolidated companies bucket of holdings and how it fits in to the bigger picture for the company.

Fairfax has 5 income streams that drives its earnings. The first 4 are:

- Underwriting profit
- Interest and dividend income
- Share of profit of associates
- Investment gains

The 5th income stream is 'non-insurance consolidated companies.'

This is the smallest income stream. But as we learned above, over the past three years, Fairfax has been aggressively building out this collection of holdings. From a run rate today of about $150 million annually, earnings from this collection of holdings could increase to over $300 million annually as soon as 2025 or 2026. This income stream is poised to be Fairfax's fastest growing income stream in the coming years.

This 5th income stream also provides Fairfax with many structural and strategic benefits:

- Earnings diversification: The earnings from this income stream are not correlated with the P/C insurance cycle.
- Liquidity: These holdings provide Fairfax with an important source of liquidity – holdings could be sold (in whole or in part) if Fairfax needed cash.
- Capital allocation benefits: Retained earnings/free cash flow from the various holdings can be re-invested into the best available opportunity within the Fairfax organization.

Comments from Wade Burton on Fairfax's Q3-2024 earnings conference call:

"For the $20 billion in equities, not much changed. Our core holdings and investments continued to perform well, all making good income against invested capital. Our experienced investment team is constantly searching for new opportunities, but as managers of insurance float, we have the very great benefit of taking a long-term approach to investing. It means we can wait for prices to come to us, and we won't invest unless we see a margin of safety.

"We did make one significant announcement in the quarter. We bought out our main partners in Peak Achievement, an athletic wear and equipment company focused on hockey and lacrosse. It is an outstanding business operating in a highly consolidated industry, well

run by Ed Kinnaly and his team, incredible track record, and we paid a fair price. We think we will make a very good return over the long run for our shareholders, and importantly, Ed runs the company very much in tune with the Fairfax culture.

"Looking back over the last two years, we've made three significant long term equity investments, one in Meadow Dairy, a dominant milk ingredients company in the U.K. that is doing very well; another in Sleep Country, a dominant mattress distributor and retailer in Canada; and now a third, Peak, a dominant sporting goods company focused on hockey and lacrosse. All immediately are or will contribute to our earnings, and we believe all will continue to contribute more and more as their businesses progress." *Wade Burton – Q3-2024CC*

Comments from Jen Allen's on Fairfax's Q3-2024 earnings conference call:

"As Wade noted, with our recently announced Sleep Country and Peak Achievement transactions, we expect the operating income from our non- insurance companies reporting segment will grow in the future periods, reflecting the operating income diversity these investments will add to the segment." *Jen Allen – Fairfax Q3-2024 conference call*

Do total debt levels really come down over time?

To answer this question, let's look at two legacy consolidated holdings: Recipe and AGT Food Ingredients.

Recipe Unlimited

At the time of the take private in 2022, total borrowings at Recipe increased to $464 million. Total borrowings at Recipe were reduced by $154 million in 2023 and 2024, finishing the year at $310 million.

In Q1 2025, Fairfax bought out its 16% minority equity partner in Recipe (CARA Operations and the founding Phelan family). The purchase was paid from an increase in borrowings at Recipe of $132.1 million. Fairfax now owns 100% of Recipe (and its significant free cash flow) and did not have to inject any new capital to make it happen.

Recipe - Change in Total Debt

	Total Debt US$ m	
2021YE	$359	Debt reduction of $76 million
2022YE	$464	Recipe take private (+$99.8m)
2023YE	$400	Debt reduction of $64 million
2024YE	$310	Debt reduction of $90 million
Q1-2025	$442	Buyout of minority partner (+$132.1)

AGT Food Ingredients

In Q1, 2025, AGT Food Ingredients sold its non-core rail and infrastructure assets for $132 million and the proceeds were used to pay down debt. AGT had total borrowings of $465 million at December 31, 2024. This drops total borrowing to $333 million, a significant reduction.

In both of our examples, yes, total debt levels are coming down over time.

We are now going to shift from looking at leverage in the traditional way (debt) to looking at debt in a very non-traditional way (equity).

Equity – At the Holding Company & the P/C Insurance Operating Company Level

June 16, 2025

When people think about leverage, they tend to only think about debt. But it can also be attained using equity.

How?

That is what we will review next.

Is issuing equity really a form of leverage?

Remember what our definition of leverage is: **Using other people and/or their money to boost returns and/or improve the quality of the company.**

Issuing equity is using other people's money. And the objective of issuing equity is to boost returns and/or improve the quality of the company.

So, yes, issuing equity fits perfectly with what our definition of leverage is.

What is the cost?

With debt, it is very easy to determine the cost – it is the interest rate paid.

With equity, yes, there is a cost. And it is easy to understand in theory.

The cost of issuing equity is the sum of two components:

- How much value is being acquired?
- How much value is being given up?

If more value is being acquired than is being given up then the transaction should be good (accretive) for current shareholders.

The challenge is the valuation process (estimating the benefit and the cost) can be very subjective.

Rules of thumb

You generally don't want to issue your equity (shares) when it is cheap to buy another company when its equity is expensive (and you normally have to pay a premium to buy out a company). This dilutes existing shareholders – on a per share basis, it makes them worse off.

Rather, you want to issue your equity when it is expensive to buy another company when its equity is cheap. This is accretive for existing shareholders – on a per share basis, it makes them better off.

And it may make sense to issue equity to buy another company when both are similarly valued. Especially if the acquisition has strategic benefits – like it makes the company stronger.

Shareholder friendly management

How share count is managed over time is a strong indicator of how shareholder friendly a management team is.

What does this have to do with Fairfax?

Over its history as a company, Fairfax has issued equity in two ways:

1. Equity (shares) in the parent company.
2. Equity (shares) in one or more of the P/C insurance subsidiaries.

Fairfax uses the first option as a structural/permanent part of its capital structure. It uses the second option in more of a tactical/short-term way. In recent years, they have used the second option as a way to exploit volatility and capitalize on short term opportunities.

Most companies use the first method. Fairfax is the only company that I know of that actively uses the second method.

Let's now do a short review of each of the ways that Fairfax issues equity.

Issuing equity (shares) at the holding company level.

Throughout its history, Fairfax has used equity as a significant source of capital to fund the rapid growth of its P/C insurance business. We do a historical review of the changes in effective shares outstanding for Fairfax in the Capital Allocation chapter so we won't repeat it here.

How did it work out?

BVPS compounded at more than 19% for 39 years. In aggregate, much more value was acquired than what was given up. Bottom line, using equity at the holding company level has worked out fabulously well for Fairfax and its shareholders.

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Issuing equity (shares) in one or more of the P/C insurance operating companies

Over its history as a company, when issuing equity in its P/C insurance subsidiaries Fairfax has used two very different approaches:

- Use public markets (IPO)
- Use private markets

Using public markets appears to be Fairfax's old method (used from 2001 to 2009). Using private markets appears to be Fairfax's preferred method today (used from 2105 to present).

Let's explore the public market option first.

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P/C Insurance Operating Company - Using Public Markets to Raise Capital (2001 to 2009)

June 16, 2025

A Look into Fairfax's past – IPO of Odyssey Re and Northbridge

Fairfax has been very creative over the years in finding solutions to problems. From 2001 to 2004, Fairfax had a problem – it was short of cash. It had made two very large P/C insurance acquisitions – one in 1998 (Crum and Forster) and the other in 1999 (TRG Holdings) – and afterwards found out they were both severely under-reserved. To get cash Fairfax sold pieces of its two best P/C insurance companies (Odyssey Re and Northbridge Financial) to the public in two different IPO's.

Odyssey Re IPO and subsequent take-private

In May 2001, Fairfax took Odyssey Re public at $18/share. Fairfax sold 17.1 million shares for gross proceeds of $308 million (26.3% of Odyssey Re was sold). Public shareholders owned 26.3% of Odyssey Re and Fairfax continued to own 73.7%.

In October 2009, Fairfax took Odyssey Re private at $65/share (paying a 29.8% premium). The total cost was about $1 billion.

Northbridge Financial IPO and subsequent take-private

In May 2003, Fairfax took Northbridge public at C$15/share. Fairfax sold 13.4 million shares at C$15/share for gross proceeds of $201 million.

In May 2004, Fairfax sold an additional 6 million shares at C$25.60/share for gross proceeds of C$153.6 million. This reduced Fairfax's ownership position in Northbridge to 59%.

In Dec 2008, Fairfax took Northbridge private at C$39/share (paying a 28.9% premium). Fairfax purchased 17.59 million shares at a total cost of $686 million. Before the takeout, Fairfax owned 63.1% of Northbridge.

Exit strategy

As we said earlier, from 2001 to 2003, Fairfax was short on cash. By 2008, thanks to the significant realized gains on its investment in credit default swaps and equity hedges (running in the billions), Fairfax was flush with cash. Fairfax took Northbridge private in 2008 and Odyssey Re private in 2009.

Selling part of Odyssey Re and Northbridge to the public ended up being a temporary (short term) source of funding for Fairfax. Yes, 5-years and 8-years is short term for Fairfax.

Fairfax learned some important lessons when using this form of financing. Being a publicly traded company is a pain in the ass. And a big premium has to be paid to take the sub private again. And even when a premium is paid, lots of shareholders (in the companies being taken private) are still unhappy.

There is a better way – use private markets. Let's explore this option next.

P/C Insurance Operating Company - Using Private Markets to Raise Capital (2015 to present)

June 16, 2025

From 2015 to 2017, Fairfax executed an aggressive acquisition strategy to build out its global P/C insurance footprint. At the time PC insurance was in a soft market so top-line growth was stagnant and underwriting margins were under pressure. The investment side of the business was also struggling - bond yields were very low. As a result, the stocks of P/C insurance companies were cheap. This was the perfect time to grow by acquisition.

From 2015 to 2017, Fairfax made 11 different purchases of P/C insurance companies. The total cost was $7.6 billion.

Equity – Minority partners (private markets)

Minority partners supplied Fairfax with $2.3 billion. This was/is NOT a traditional source of capital for a P/C insurance company.

Fairfax brought on minority partners for their three largest acquisitions:

- Brit: OMERS purchased 30%.
- Eurolife: OMERS purchased 40%
- Allied World: OMERS and CPPIB purchased 32.5%

Fairfax's P/C Insurance Purchases 2015-2017 - International Expansion						
	Date		Total Cost	Partner Cost		
2015	01-Jan	Union Unsurance (Sri Lanka)	$28		Fairfax owns 78%; re-named Fairfirst; purch from John Keells	
	01-Mar	MCIS Insurance (Malaysia)	$13		Malaysian insurer	
		Africa Re	$61		7.2% stake	
	04-May	BIC Insurance Corp (Vietnam)			Fairfax owns 35%; insurance sub of BIDV Bank, #2 bank in Vietnam	
	05-Jun	Brit (UK)	$1,657		Increased Lloyds profile of Fairfax. Issued 1.15m Fairfax shares.	
				$516	30% of Brit sold to OMERS	
	22-Dec	Eurolife (Greece)	$361		Fairfax owns 40%; bought from Eurobank. #3 insurer in Greece	
				$180	OMERS also bought 40% stake for $180 million	
2016	03-Oct	Asian Alliance (Sri Lanka)	$10		Sri Lankan insurer; renamed Fairfirst insurance	
	10-Oct	AMAG Insurance (Indonesia)	$179		Fairfax owns 80%	
	18-Oct	AIG Latin Am & East Europe	$240		Built out Fairfax's Latin Am and Central/East Europe footprint	
	07-Dec	Zurich South Africa	$128		Renamed Bryte Insurance	
2017	06-Jul	Allied World	$4,900		Fairfax owns 67.4%. Paid 1.3 x BV. Writes $3.1 billion in business.	
				$1,560	OMERS, AIMCo, others own 32.5% for $1,580	
		Total	**$7,577**	**$2,256**	**30%**	**Minority Partner Share**

What was the cost to Fairfax?

Allied World paid dividends to its minority partners in 2019, 2020 and 2021 of $126 million. This provided minority partners with an 8.0% return (using $1,560 million as the cost base). If accurate, this is a solid return for the minority partners (remember, this was a time when interest rates were very low).

Cost to Fairfax was modest.

An example of the genius of Fairfax: Call option feature

When the deal is put in place with the minority partner it includes a call option feature. The call option gives Fairfax the right - but not the obligation - to buy out their minority partner at a specified price and by a specified date. Fairfax profits if the underlying asset increases in price. This is very important – for reasons we will explore in other posts.

Exit strategy

Over the past 3 years Fairfax has begun the process of taking out its minority partners.

Why?

Because the company is now flush with cash. And taking out the minority partners is an attractive use of capital. The P/C insurance businesses have significantly increased in value over the past 8 years. But, because of the call option Fairfax is able to take out the minority partners at a very attractive price.

Today, Fairfax owns 100% of Brit and 80% of Eurolife (minority partner OMERS was taken out completely). At Allied World, the minority stake has been reduced from 32.5% to 16.6%. And it wouldn't surprise me if Fairfax increased their ownership of Allied World to 100% in the next couple of years.

Summary

By bringing on minority equity partners Fairfax was able to get access to much more capital. This allowed them to be aggressive and maximize the size of their acquisitions.

Importantly, Fairfax had complete control of all P/C insurance acquisitions - its partners were passive partners.

Minority partners (equity) - Capital allocation

Fairfax added a new tool to their capital allocation toolbox - minority partners (equity).

This tool gives them an important source of future cash. Temporary - usually paid back after 7 or so years. Acceptable cost. Not debt (keeps the ratings agencies and regulators happy). Equity.

Most importantly, this tool allows them to be opportunistic and exploit short-term volatility in financial markets.

And yes, this is a non-traditional tool. And it is very effective when used properly.

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Is volatility in financial markets a good or a bad thing for Fairfax?

Next, we will review a couple of examples of how Fairfax uses leverage in a tactical way - to exploit short-term volatility in financial markets.

Tactical Uses: FFH-TRS (late 2020) and Dutch Auction (late 2021)

Financial markets are very volatile. Sometimes a great opportunity comes along when you are light on available cash. What to do? Get creative. This had been a 'towering strength' of Fairfax over the years. Next, we will explore two examples of how Fairfax thought 'outside the box' and used leverage in a very non-traditional way to capitalize on a significant short-term opportunity.

- Fairfax Total Return Swaps (late 2020/early 2021) - Getting exposure to 1.96 million shares at $373/share
- Dutch Auction (December 2021) - Buying back 2 million shares at $500/share

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Fairfax Total Return Swaps (late 2020/early 2021) - Getting exposure to 1.96 million shares at $373/share

June 30, 2025

> "Opportunities come infrequently. When it rains gold, put out the bucket, not the thimble"
> *Warren Buffett*

A wonderful opportunity presents itself

In 2020, financial markets experienced some wicked volatility. But what happened in the broader market was nothing like what happened to Fairfax. For most of 2020 Fairfax's stock was trading at a historically low valuation.

Fairfax communicated this loudly to investors: in June 2020, Prem Watsa bought $149 million in Fairfax stock ($311/share). (For context, when Jamie Dimon made his famous and much lauded 'vote of confidence' purchase of JP Morgan shares in 2016 he spend $25 million).

Circle of competence

In late 2020, Fairfax understood how undervalued their stock was. As a result, buying back stock was a high certainty / low risk investment for Fairfax.

Position size

What should an investor do when they find a great investment that they understand better than anybody else and it is trading at a historically cheap valuation?

They should 'back up the truck.' They should make the investment a concentrated position.

The investment

In late 2020/early 2021, Fairfax purchased credit default swaps giving it exposure to 1.96 million Fairfax shares at an average cost of $373/share. The total notional value of the investment was $731 million. Yes, a total return swap is a non-traditional tool for P/C insurance companies to use in their investment management business.

At the time, Fairfax had 26.2 million effective share outstanding. This investment gave them exposure to 7.5% of shares outstanding. This was a very large investment.

Where did they get the cash?

The FFH-TRS position had a notional value of $731 million. That is what it would have cost Fairfax to buy 1.96 million shares.

Back in late 2020/early 2021, Fairfax did not have a lot of extra cash. The hard market in P/C insurance was taking off. Hard markets happen only about once every 20 years - when they happen they need to be the priority for excess capital. Fairfax also closed out its last short position in December 2020 and this resulted in a $529 million investment loss.

Debt levels at Fairfax were ok. But taking on more debt to fund a buyback was not an option.

What else could they do?

Fairfax got creative. They pulled a play from the hedge fund playbook. They didn't buy the shares directly. They did the next best thing… they purchased total return swaps. This kept their capital outlay to a minimum. And they got exposure to 1.96 million shares of Fairfax (without actually owning the stock).

What has been the gross return from this investment?

Since being put on, the FFH-TRS position has delivered to Fairfax a total return of about $2.7 billion. This is before carrying costs. That is an exceptional return over a 4.5-year period.

Fairfax - Estimated Total Return From Investment in FFH-Total Return Swaps				
June 30, 2025	Shares	FFH Share	TRS Market	
Current position	m	Price	Value	Date
Average cost	1.760	$373	$656	Q4 '20/Q1 '21
Market value	1.760	$1,807	$3,180	June 30, 2025
Increase in MV of current position			**$2,523**	
Est of gain on position closed out in Q4, 2024				**Date**
Total shares closed out		0.2038		
Est price per share		$1,393		Dec 20, 2025?
Total cost to exit position		$284		
Est gain per share		**$1,020**	**$208**	**Total $ gain**
Total increase in value for Fairfax (1)			**$2,731**	**4.5 Year return**
(1) Increase in value before carrying costs				

What is the cost of this investment?

The cost to carry this investment is a component of two things:

- LIBOR/SOFR plus a fixed rate (2%?) = 4.32% + 2% = about 6.5%?
- While holding the TRS, Fairfax collects the dividend paid on its shares. The dividend was $10/share in 2021, 2022 and 2023. And $15/share in 2024 and 2025. Total dividends paid since the position was established = $60/share. Fairfax has received more than $100 million in dividends since the position was put on.

Does this look roughly correct? I look forward to hearing what other board members think.

How has the investment worked out?

Bottom line, the return to Fairfax from this investment has been significant. The FFH-TRS has become one of their best investments ever.

This is a great example of how the team at Fairfax has used other people's money to boost earnings. To be opportunistic and take advantage of a short-term market dislocation - this time the historically low price of Fairfax's shares.

Exit strategy

The FFH-TRS is an investment for Fairfax. It is not a permanent holding.

Fairfax began exiting the position in Q4, 2024 when they reduced their exposure by 203,800 shares. At March 31, 2025, Fairfax continued to have exposure to 1.76 million shares.

Of interest, Fairfax purchased the shares from the counterparty and retired them. The FFH-TRS investment was like a stealth buyback (at $373/share).

You are going to experience deja vu with this next example.

What is better than making one great investment? Making two great investments.

Dutch Auction (December 2021) - Buying back 2 million shares at $500/share

June 30, 2025

> "Too much of a good thing can be wonderful!" *Mae West*

Another wonderful opportunity presents itself

Fairfax's shares got historically cheap in 2020. To capitalize on the opportunity, Fairfax established the FFH-TRS position, which gave them exposure to 1.96 million shares. But in 2021, Fairfax's shares continued to trade at a very cheap valuation.

Circle of competence

In December 2021, Fairfax understood how undervalued their stock was. As a result, buy back stock was a high certainty / low risk investment for Fairfax.

Position size

What should an investor do when they find a great investment that they understand better than anybody else and it is trading at a historically cheap valuation?

They should 'back up the truck.' They should make the investment a concentrated position.

The investment

On November 17, 2021, Fairfax announced a Substantial Issuer Bid. They repurchased 2 million shares at $500/share. The total cost to Fairfax was $1 billion.

At the time, Fairfax had about 26 million effective share outstanding. Buying back 2 million reduced effective shares outstanding by 7.7%. This was a very large share repurchase.

Where did they get the cash?

Fairfax did not have $1 billion lying around at the time. What capital they did have was being used to allow the P/C insurance companies to drive growth/capitalize on the hard market.

Debt levels at Fairfax were ok. But taking on more debt to fund a buyback was not an option.

What else could they do?

Fairfax got creative. They used the equity (minority shareholder) tool again that was in their capital allocation toolbox.

To fund the big buyback Fairfax sold 9.99% of Odyssey to OMERS. They tapped the private equity market. This raised $900 million for Fairfax.

Fairfax issued equity in Odyssey at 1.7x book value. And bought back Fairfax shares at 0.9x book value (from Fairfax's Q4 conference call in February 2022).

What has been the gross return from this investment?

To calculate the return from this investment, let's keep things really simple. Let's pretend that instead of buying back shares, Fairfax had simply bought shares in another company. This makes the return calculation simple.

Looking at it this way, the gross return Fairfax has earned over the past 3.5 years from buying back 2 million shares in December 2021 has been $2.6 billion. This is what Fairfax has earned before costs.

Fairfax - Calculating Return From 2 Million Shares Purchased in Dutch Auction (2021)	Per Share	Total	
Dec 2021	$500	$1,000	
June 30, 2025	$1,807	$3,613	
Gross 'return' per share (1)	**$1,307**	**$2,613**	**261%**
(1) Not incl. cost to OMERS less savings from FFH dividend.			

What is the cost of this investment?

OMERS invested $900 million. Let's assume OMERS is earnings 8% = $72 million per year (Fairfax paid OMERS a dividend of $65 million in 2022). This puts the total cost over the past 3.5 years at about $252 million ($72 x 3.5 years).

Fairfax no longer has to pay a dividend on 2 million shares. The total savings from this over the past 3.5 years has been $100 million (4 payments of $10+$10+$15+$15=$50 x 2 million = $100).

If my numbers are roughly accurate, the net cost to Fairfax to execute this investment over the past 3.5 years has been about $142 million.

How has the investment worked out?

The 'net' return from this investment has been about $2.2 billion.

This is yet another example of how the team at Fairfax has used other people's money to boost its returns. Yes. I know my return calculation is not technically the right way to look at this. But the benefits of stock buybacks can be really hard to conceptualize. **The important message here is Fairfax's dutch auction in 2021 has delivered an amazing return for the company and for shareholders.**

Exit strategy

Fairfax uses equity (minority partners) as a source of capital to take advantage of a significant short-term opportunity that has materialized. It is used as a short-term source of funds (not intended to be permanent). Now that Fairfax is flush with cash, it can take OMERS out and return its ownership position in Odyssey to 100%. My guess is this is what Fairfax will do in the next couple of years.

Using leverage (other people's money) to capitalize on a temporary significant short-term opportunity was a brilliant move on the part of the management team at Fairfax.

Fairfax was very opportunistic in late 2020 and 2021. They were able to buy back/get exposure to 4 million Fairfax shares at an average cost of $437/share. This was 15% of shares outstanding. How much of their own capital did they have to use? Very little. The gross 'return' over the past 4.5 years from these two investments has been over $5 billion. How did they do it? They used other people's money. Freaking brilliant.

Next, we are going to think 'outside the box' and take out discussion of leverage in a completely different direction.

Non-Financial Leverage – Human Capital

July 10, 2025

Next to float, the next most important piece of leverage for Fairfax is how it is using human capital.

Human capital and the investment portfolio

P/C insurance companies have two basic options when it comes to how they invest their investment portfolio: they can buy bonds or they can buy stocks, or some combination of the two.

What do most P/C insurance companies do?

Most insurance companies invest primarily in bonds (about 90% of their total investment portfolio). The remainder is invested in a variety of holdings, including stocks (about 10% of the total).

Why do P/C insurance companies overwhelmingly prefer bonds?

Bonds are considered a much safer investment than equities. Bonds are also less volatile. And bonds are easy (to purchase, and hold to maturity).

Stocks, on the other hand, are considered to be a much riskier investment than bonds. Stocks are much more volatile. And stocks are difficult (stock picking).

As a result, regulators and ratings agencies love bonds.

So why doesn't everyone (not just P/C insurance companies) own only bonds?

Sounds like bonds are a no brainer. Why bother with stocks?

Rate of return.

The return on bonds is capped at the interest rate paid (let's assume the bonds are owned to maturity, which most P/C insurance companies tend to do).

Conversely, the return on stocks is unlimited. At least that is the theory.

What can history teach us about returns?

Comparing average historical returns: stocks and bonds

What asset class tends to perform the best over the long term?

Since 1928, stocks (CAGR = 9.94%) have outperformed bonds (CAGR = 6.62%) by a wide margin.

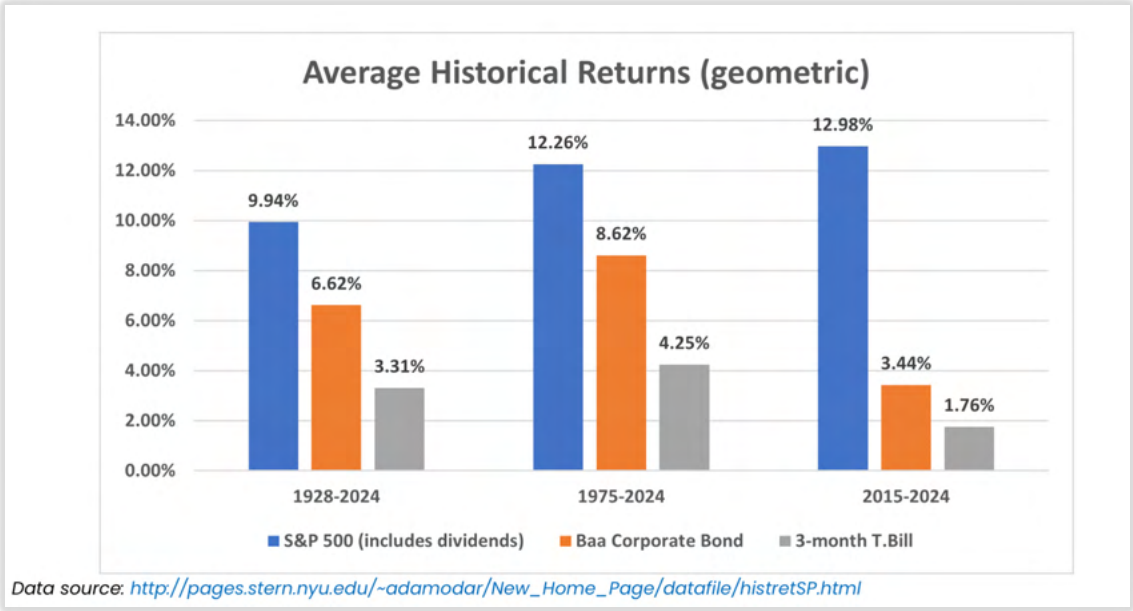

Chart source: https://barbarafriedbergpersonalfinance.com/historical-stock-and-bond-returns/

Does a return differential of 3.3% make that much of a difference?

Let's run the math. Let's make 2 assumptions: our initial investment is $10,000 and our holding period is 20 years.

After 20 years, an investor in bonds would have $36,000 and an investor in stocks would have $66,500. An extra 3.3% return allowed stocks to deliver a return that was 100% more than the return delivered by bonds. Yes, getting an incremental return of 3.3% per year is a big deal for long term shareholders. Not surprisingly, Buffett was able to figure this out.

My guess is CEO's of other P/C insurance companies also understand the math. So why don't they invest in equities? They won't be at the company in 20 years. Yes, there are other reasons. But this might just be the biggest reason.

Difference in Rates of Return Over 20 Years
Initial Investment = $10,000

Timeframe = 20 Years	Bonds	Stocks
Rate of Return	6.62%	9.94%
Total Value	$36,000	$66,500
Total Return	$26,000	$56,500
	260%	565%

Why do stocks outperform bonds by such a wide margin?

Thanks for hanging in there with this post. We are getting to the good stuff…

Stocks outperform bonds because they allow you to fully reap the rewards of human capital. That is the advantage of being the owner of a business. Being a lender does not allow you to benefit from human capital.

And guess what the limits to human capital are? There are none. That is why owning stocks can be so good - and why they have unlimited upside.

When you own stocks, you are leveraging human capital.

The genius of Warren Buffett

Warren Buffett is using leverage at Berkshire Hathaway in two ways:

1. Financial capital: Float from the P/C insurance business
2. Human capital: Investing heavily in stocks.

Yes, Buffett loves leverage. And he has been exploiting it brilliantly for 55 years.

The genius of Charlie Munger

Charlie Munger took Buffett's model and made it even better.
Stocks are good. **But high quality stocks are even better.**

Why?

Because the upside for high quality stocks is much, much higher than the upside for average stocks.

Average stocks give you leverage to human capital. **High quality stocks give you even more upside leverage to human capital.**

Buffett's pivot to Munger's way of thinking was monumental for Berkshire Hathaway shareholders. The pivot started in 1972 with the purchase of See's Candy. From 1974 to 1984 Berkshire Hathaway posted a 10-year CAGR of 41.4%, its best performance. From 1984 to 1994 it posted a 10-year CAGR of 32%. That 20-year span was a magical time for Berkshire Hathaway shareholders. The company was still small. And in mid-1970 it was just beginning its shift to high quality equities.

As Buffett telegraphed repeatedly, the law of large numbers eventually caught up to Berkshire Hathaway. And returns in recent decades have come down to earth.

There are three key learnings here:

- The P/C insurance model works - float.
- Investing in high quality equities works - leverage human capital.
- Size (eventually) negates the power of the first two (in terms of being able to generate outsized returns).

This is not to suggest that Berkshire Hathaway is not a wonderful company today. It is. But it is now an aging elephant. It is no longer the predator that was back in 1975 – when it was just entering its prime - and roaming a savannah that was teeming with game.

Berkshire Hathaway			
	BRK-A		
	YE Value	10-Year CAGR	
1965	$12		
1974	$40	1965-1974*	14.3%
1984	$1,275	1974-1984	41.4%
1994	$20,400	1984-1994	32.0%
2004	$87,900	1994-2004	15.7%
2014	$226,000	2004-2014	9.9%
2024	$680,920	2014-2024	11.7%
1965-1974 * = 9-year CAGR			

What does all of this have to do with Fairfax?

Like Berkshire Hathaway, Fairfax is using leverage in the same two ways:

1. Financial capital: Float from the P/C insurance business.
2. Human capital: Investing heavily in stocks.

The pivot to quality at Fairfax

And like Berkshire Hathaway, it looks like Fairfax has made the pivot to quality.

It looks like the pivot happened around 2018 (I am guessing). Since then, 2 very important things have been happening:

- Since 2018, new equity purchases have been very good.
- Holdings in their legacy equity portfolio (holdings purchased before 2018) have been fixed.

It has been an 8-year journey for the company. And today, Fairfax now has a high-quality equity portfolio.

And we are seeing it in the results that Fairfax has been posting in recent years. The contributions from the equity portfolio have been very good. Importantly, an enormous amount of value has been created (economic results) that has not yet been reported in accounting results. This will be a tailwind to earnings in the coming years.

But more important is the future. Fairfax is still a small company. And with its equity portfolio, it is just at the beginning of its 'quality' journey.

Of interest, Fairfax made a similar shift to quality in its P/C insurance portfolio in around 2011 when it appointed Andy Barnard to president and chief operating officer of Fairfax Insurance Group. Under Andy, it has been a 14-year journey. And today Fairfax now has a top-tier P/C insurance business.

Reaping the rewards of human capital - founders/entrepreneurs/CEO's

Leveraging human capital is a powerful way for Fairfax to improve returns. But this time, instead of leveraging other people's money, they tap into/exploit/leverage other people's time, talent and experience.

Fairfax's shift to quality has been a little different than Berkshire Hathaway's. That shouldn't be a surprise… they are very different companies and external environment had changed a great deal from 1975.

One of the tweaks that Fairfax made to their investing framework in 2018 was to put an emphasis on partnering with outstanding founders/entrepreneurs/CEO's/capital allocators. Eight years later we can see the results of their efforts. The list of people that Fairfax is partnered with today with their equity holdings is impressive.

- Fokion Karavalis - Eurobank
- David Sokol/Bing Chen - Poseidon/Atlas/Seaspan
- Hari Marar - Bangalore International Airport (BIAL)
- Kamesh Goyal - Digit Insurance
- Pierre Lassonde/John Graham/Jason Simpson - Orla Mining (gold)
- Pierre Lassonde/Dan Myerson - Foran Mining (copper)
- Adam Waterous - Waterous Funds/Strathcona (oil)
- Harold Hickey - EXCO Resources (US natural gas)
- Byron Trott - BDT Capital Partners (private equity)
- Kyle Shaw - Shaw Kwei (private equity)
- Bill McMorrow - Kennedy Wilson (real estate)
- Evangelos Mytilineos - Metlen Energy and Metals
- Madhaven Menon/Mahesh Iyer - Thomas Cook India
- Frank Hennessy - Recipe Unlimited
- Christine Magee/Stewart Schaefer - Sleep Country
- Ed Kinnaly - Peak Achievement
- George Chryssikos - Grivalia Hospitality
- Raj Tugnait - Meadow Foods
- Krishan Balendra - John Keells
- Murad Al-Katib - AGT Food Ingredients
- Ajit Isaac - Quess companies
- Nirmal Jain - IIFL companies

Outstanding people provide 2 benefits:

- Downside protection: They find a way to deal with adversity/view it as opportunity.

- Unlimited upside: They are constantly delivering surprises - upside surprises, the good kind.

Of course, not every investment is going to work out. But by continually upgrading their portfolio of holdings/partnerships over time Fairfax keeps increasing the probabilities that good outcomes will happen in the future.

Let's pivot in our analysis from theory to practice

Theory is good and interesting. But we live in the real world.

Let's review three examples of what has actually been happening at Fairfax's equity holdings in recent years.

- New equity purchase - Stelco.
- Legacy equity purchase - Eurobank
- Deal flow - Kennedy Wilson - getting an investment idea from a partner.

Case study 1: Stelco (a Canadian steelmaker)

In November 2018, Fairfax paid $193 million for 14.7% of Stelco (13 million shares at C$20.50/share). On July 15, 2024, Stelco announced that the company had been sold to Cleveland-Cliffs for about C$70/share (consisting of C$60.00 in cash and 0.454 of a share of Cliffs common stock).

Over its 6-year holding period, Fairfax earned a total return of about US$544 million (+282%) on its $193 million investment in Stelco. The 6-year CAGR was 25%. That is an outstanding return. Bottom line, the team at Fairfax/Hamblin Watsa absolutely crushed their investment in Stelco.

Fairfax - Estimate of Total Return on Investment in Stelco					
December 27, 2024	**Transaction**	**Share**	**Total Value**		
	Date	**Price C$**	**C$ m**	**US$ m**	
Initial investment in Stelco	Nov 2018	$20.50	$267	$193	
Proceeds sale of Stelco shares	Nov 2024	$60.00	$780	$561	
Increase in market value since inception (Nov 2018)				**$368**	**191%**
Regular dividends received since 2018				$54	
Special dividends received since 2018				$68	
Cleveland Cliffs shares received	13 x .454	5.9	$9.26	$55	
Total return on investment from inception (Nov 2018)				**$544**	**282%**
		6 year CAGR (US$)		**25%**	

What made Stelco such a good investment for Fairfax?

It was the CEO of Stelco, Alan Kestenbaum.

Since buying Stelco out of bankruptcy in 2017 (via Bedrock Industries) Kestenbaum's capital allocation decisions were exceptional:

- Invested smartly in the business.
- Minntac iron ore supply agreement struck with US Steel in 2020 (during Covid) was brilliant.
- Sold non-core assets at a premium price (Stelco lands in Hamilton).
- Bought back 38% of the company's stock and did not overpay.
- And the final act? Selling the entire company for C$70.00 in July 2024.

This investment provides a wonderful real-world example of the incredible returns that can be generated by partnering with outstanding founders/entrepreneurs/CEO's. This was a new investment for Fairfax.

What about the legacy holdings? Those bought pre-2018 and still owned by Fairfax.

Case study 2: Eurobank (financial services - with operations in Greece, Cyprus and Bulgaria)

When Fairfax was culling its legacy equity holdings (those purchased before 2018), it made the call to keep Eurobank. This was a great decision.

Fairfax first invested in Eurobank in December 2014. Over a couple of years, they invested a total of $1.19 billion. To July 10, 2025, the investment has delivered a total return of about $3.6 billion.

Fairfax - Estimated Total Return From Investment in Eurobank (from inception Dec 2014)				**Shares**
	Stock Price		**MV of**	**Owned**
July 10, 2025	**Euro**	**US$**	**Position**	**by FFH**
Total cost (from 2019AR)		$0.940	$1,190	1,266
Market value	€ 3.156	$3.688	$4,374	1,186
Increase in market value			**$3,184**	
Proceeds Received By Fairfax	Dividends	Aug 2024	$126	
		May 2025	$142	
	Stock sale	Jan 2025	$191	
Total increase in value			**$3,643**	**306%**
10.5 year CAGR				**14.3%**

What happened?

Four things:

1.) Exceptional management.

- Over the past 7 years, the management team at Eurobank has been putting on a clinic. Their most recent great decision was the purchase of Hellenic Bank (and paying 4 x earnings).

2.) Strong economic performance.

- The depression in Greece ended. For two elections in a row, Greece has elected a pro-business government. Animal spirits have been unleased. And Greece has had one of Europe's best performing economies.

3.) Increase in interest rates

- Central banks around the world ended their disastrous zero interest rate policies. Higher interest rates have spiked earnings for banks.

4.) Patient controlling shareholder.

- Eurobank was given time to work through their issues. This also allowed them to think strategically and manage the business for the long-term.

2 lessons:

- When adversity hits, outstanding people will usually figure out a way to get through it.
- And then when they get to the other side, they will thrive.

Example 3: Kennedy Wilson and Pac West

Deal flow is a very important driver of investment returns. That is what we will review with this example.

Financial markets were in turmoil during the US regional banking crisis in spring of 2023. Kennedy Wilson and Fairfax were opportunistic. Their initial investment in PacWest loans has performed very well. More importantly they used the crisis to build a new business/income stream - making both companies stronger in the process.

In June of 2023, Kennedy Wilson and Fairfax purchased a $4.5 billion construction loan portfolio from PacWest. PacWest was caught in the regional bank crisis and they were forced to sell their best assets at a discount. At Fairfax's AGM in April 2025, Bill McMorrow from Kennedy Wilson provided an update.

How has the investment performed? Was it a good decision?

There are two angles to this transaction:

1.) Initial transaction - purchase of the $4.5 billion construction loan portfolio.

- 27 of those 65 loans have been paid off at par (they were bought at a discount).
- Since inception, the loans have generated almost $500 million of interest income.
- The current portfolio is generating roughly $350 million a year in interest income.

2.) Building the business

- One of the conditions of the original deal with PacWest was the 40 people who were running the loan portfolio would also move over the Kennedy Wilson.
- At the same time, the regional banks backed away from the multifamily and student housing market. Over the past 18 months, the new team at Kennedy Wilson has generated about $5.5
  billion of new loan originations.
- As a result, interest income of $350 million is expected to grow significantly in the coming years.

> "It was another one of these success stories that really turned out well for both our companies."
>
> *Bill McMorrow, Kennedy Wilson at Fairfax Annual Meeting April 2025*

The idea to buy the PacWest construction loan portfolio came from Bill McMorrow at Kennedy Wilson (he also gave Fairfax the idea to invest in Bank of Ireland in 2011 - an investment that delivered +$1 billion realized gain to Fairfax and its shareholders when it was exited in 2017).

<u>There are a couple of really important lessons that come from this investment:</u>

- Relationships matter. Fairfax has built an extensive network of external relationships/partnerships across industries and geographies.
- This capability leads to deal flow. Fairfax's phone is ringing.
- This is a great example of how extreme volatility in financial markets has been a good thing for Fairfax and its shareholders. Something to keep in mind in the current environment.

<u>What did we learn from our three examples?</u>

Exceptional people can make a huge difference.

- Alan Kestenbaum - Stelco
- Fokion Karavalis - Eurobank
- Bill McMorrow - Kennedy Wilson

Earlier in this post I provided a list of more than 20 people/companies that Fairfax is partnered with. Here is the crazy thing. I could have provided many more examples (like the three above) of the outstanding work they are all doing for Fairfax. They are generating enormous economic value for Fairfax and its shareholders.

We are seeing the power of human capital getting fully unleashed at Fairfax's $25 billion equity portfolio.

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Conclusion

Human capital is more powerful than financial capital. Fairfax has gotten much better at leveraging human capital within its equity portfolio. The benefits of this pivot to high quality equities are just starting to show up in reported results. Fairfax has been reporting exceptional total results in recent years and one of the drivers has been large gains from its equity portfolio.

Interestingly, Fairfax's stock is still cheap (yes, even after its big run). Investors do not understand/appreciate the amount of leverage that Fairfax has embedded within its equity portfolio (human and financial). And the significant impact that leverage is going to have on business results (including earnings) moving forward.

The benefits of this transition to high quality equity holdings are just emerging. Fairfax is a small company. And it is just getting started on this part of its journey. Fairfax is a like a lion that is just entering its prime and the savannah is once again teeming with game (volatility).

Float + equities + quality = exceptional returns

Add time + compounding = enormous value creation for long term shareholders = magic

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An Example: Grow P/C Insurance by Acquisition (2015-2017) – 'Fortune Favours the Bold'

June 16, 2025

Yes, a discussion of leverage can get really theoretical. So, to help us on our quest (to learn more about the topic and Fairfax) let's pivot and look at a real-world example.

Growth by acquisition – P/C Insurance Expansion (2015-2017)

From 2015 to 2017, Fairfax executed an aggressive acquisition strategy to build out its global P/C insurance footprint. At the time, PC insurance was in a soft market. As a result, top-line growth was stagnant and underwriting margins were under pressure. The investment management side of the business was also struggling - bond yields were very low. **As a result, the stocks of P/C insurance companies were cheap. This was the perfect time to grow by acquisition.**

From 2015 to 2017, Fairfax made 11 different purchases of P/C insurance companies. The total cost was $7.6 billion.

To provide context, at the end of 2014, common shareholders' equity at Fairfax was $8.4 billion. Fairfax saw a big opportunity and they acted with conviction and backed up the truck.

Fairfax's P/C Insurance Purchases 2015-2017			
International Expansion			Total
	Date		Cost (m)
2015	01-Jan	Union Unsurance (Sri Lanka)	$28
	01-Mar	MCIS Insurance (Malaysia)	$13
		Africa Re	$61
	04-May	BIC Insurance Corp (Vietnam)	
	05-Jun	Brit (Lloyds-UK)	$1,657
	22-Dec	Eurolife (Greece)	$361
2016	03-Oct	Asian Alliance (Sri Lanka)	$10
	10-Oct	AMAG Insurance (Indonesia)	$179
	18-Oct	AIG Latin Am & East Europe	$240
	07-Dec	Zurich South Africa	$128
2017	06-Jul	Allied World	$4,900
		Total Cost	**$7,577**

How did Fairfax pay for the acquisitions?

This is where our story gets quite interesting.

Below is a very rough estimate of how Fairfax came up with the $7.6 billion total cost.

Fairfax supplied $1 billion in cash, or 13% of the total cost. Other people supplied about $6.6 billion of the total cost, or 87%.

'Other people's money' came from three sources:

- Debt of $1 billion (held at the Fairfax level).
- Equity - Share issuance (Fairfax shares) of $3.3 billion.
- Equity - Minority partners (of the P/C insurance companies being acquired) of $2.3 billion.

Fairfax used a significant amount of leverage when executing its aggressive grow by acquisition strategy.

Fairfax - Sources of Capital		
P/C Insurance Insurance Acquisitions (2015-2017)		
Cash on hand	**$1.0**	**13%**
Other People's Money		
Debt	$1.0	13%
Equity - Share Issuance	$3.3	43%
Equity - Minority Partners	$2.3	30%
Total - Other People's Money	**$6.6**	**87%**
Grand Total	**$7.6**	

Let's now review in a little more detail each of our leverage metrics: debt, equity and float.

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Debt = $1 billion

Fairfax needed to be careful with the amount of debt it used. It needed to keep the ratings agencies and insurance regulators happy.

Holding company debt at Fairfax increased from $2.92 billion in 2014 to $3.96 billion in 2018, an increase of $1.04 billion over 4 years.
What was the cost?

Below are some of debt offerings Fairfax closed in 2015 and 2016:

- February 20, 2015 - $350 million of 4.95% senior notes due 2025.
- March 22, 2016 - C$400 million of 4.5% senior notes due 2023.
- December 16, 2016 - C$450 million of 4.7% senior notes due 2026.

The increase in total debt was reasonable. And the cost was low (a blended rate of about 4.75%).

Fairfax - Change in Total Borrowings (2014 to 2018)			
Long Term debt + Credit Facilities			
	Carrying Value		
$ m	Hold co	Re/Ins Subs	Total
2014	$2,923	$388	$3,310
2015	$2,839	$467	$3,306
2016	$3,737	$430	$4,167
2017	$3,724	$1,387	$5,110
2018	$3,964	$979	$4,942
4-Yr Change	**$1,041**	**$591**	**$1,632**

Equity

At $5.6 billion, equity supplied the majority of the funds for Fairfax's acquisitions.

The funding from equity came from two sources: one public and one private.

Equity – Share issuance (public markets) = $3.3 billion

From 2015 to 2017, Fairfax issued a total of 7.25 million shares at an average price of $456/share for total proceeds of $3.3 billion.

Fairfax: Share Issuance 2015 to 2017			
	Shares	Amount Raised	
	(m)	Per Share	Total $ (m)
2015	1.17	$502	$587
2016	1.00	$524	$524
2017	5.08	$432	$2,193
Total	**7.25**	**$456**	**$3,304**

Using a familiar playbook

Fairfax has a history of using equity to grow per share value for long term shareholders. Fairfax (generally) issued equity when it was trading at a premium to its intrinsic value. And it bought shares back when they were trading at a discount to its intrinsic value.

But Fairfax had a problem in the 2015 to 2017 period. As we explained earlier, P/C insurance stocks in general were on sale. At the same time, Fairfax's investment management business was underperforming. As a result, Fairfax's shares were also on sale - trading only at a slight premium to book value.

What was the cost?

Fairfax's book value at December 31, 2017 was $450/share. Fairfax issued a significant number of shares at 1 x BV. **Long term Fairfax shareholders paid a high cost.**

This was not a good time to issue equity. So, Fairfax needed to limit the amount of its own equity that it used (the quantity of its own shares that it issued).

What else could Fairfax do?

What happened was classic Fairfax. They got creative. And came up with a novel solution. That is what we will explore next.

Equity – Minority partners (private markets) = $2.3 billion

Minority partners supplied Fairfax with $2.3 billion. This was/is NOT a traditional source of capital for a P/C insurance company.

Fairfax brought on minority partners for their three largest acquisitions:

- Brit: OMERS purchased 30%.
- Eurolife: OMERS purchased 40%
- Allied World: OMERS and CPPIB purchased 32.5%

Fairfax's P/C Insurance Purchases 2015-2017 - International Expansion

	Date		Total Cost	Partner Cost		
2015	01-Jan	Union Unsurance (Sri Lanka)	$28		Fairfax owns 78%; re-named Fairfirst; purch from John Keells	
	01-Mar	MCIS Insurance (Malaysia)	$13		Malaysian insurer	
		Africa Re	$61		7.2% stake	
	04-May	BIC Insurance Corp (Vietnam)			Fairfax owns 35%; insurance sub of BIDV Bank, #2 bank in Vietnam	
	05-Jun	Brit (UK)	$1,657		Increased Lloyds profile of Fairfax. Issued 1.15m Fairfax shares.	
				$516	30% of Brit sold to OMERS	
	22-Dec	Eurolife (Greece)	$361		Fairfax owns 40%; bought from Eurobank. #3 insurer in Greece	
				$180	OMERS also bought 40% stake for $180 million	
2016	03-Oct	Asian Alliance (Sri Lanka)	$10		Sri Lankan insurer; renamed Fairfirst insurance	
	10-Oct	AMAG Insurance (Indonesia)	$179		Fairfax owns 80%	
	18-Oct	AIG Latin Am & East Europe	$240		Built out Fairfax's Latin Am and Central/East Europe footprint	
	07-Dec	Zurich South Africa	$128		Renamed Bryte Insurance	
2017	06-Jul	Allied World	$4,900		Fairfax owns 67.4%. Paid 1.3 x BV. Writes $3.1 billion in business.	
				$1,560	OMERS, AIMCo, others own 32.5% for $1,580	
		Total	**$7,577**	**$2,256**	**30%**	**Minority Partner Share**

What was the cost to Fairfax?

Allied World paid dividends to its minority partners in 2019, 2020 and 2021 of $126 million. This provided minority partners with an 8.0% return (using $1,560 million as the cost base). If accurate,

this is a solid return for the minority partners (remember, this was a time when interest rates were very low).

The cost to Fairfax was modest.

By bringing on minority equity partners Fairfax was able to get access to much more capital. This allowed them to be very aggressive and maximize the size of their acquisitions.

Importantly, Fairfax had complete control of all P/C insurance acquisitions - its partners were passive partners.

<u>One more thing: Call option feature</u>

When the equity deal is put in place with the minority partner it includes a call option feature. The call option gives Fairfax the right - but not the obligation - to buy out their minority partner at a specified price and by a specified date. Fairfax profits if the underlying asset increases in price. This is very important – for reasons we will explore in other posts.

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<u>What was the impact on float?</u>

From 2014 to 2017, total float at Fairfax increased from $15.1 to $22.7 billion, or 50%. This was a significant increase. The increase in float came primarily from the P/C insurance acquisitions.

Total numbers are nice to look at. But what really matters to long term shareholders are the per share numbers:

- Given the high number of Fairfax shares that were issued, the per share increase in float was a much smaller 15%.
- And importantly, Fairfax shareholders did not own 100% of the $817/share of float. Minority partners owned big chunks of Eurolife, Brit and Allied World.

So, on a per share basis, the amount of float that actually accrued to common shareholders was likely up only a small amount at December 31, 2017 (compared to December 31, 2014).

Does this mean Fairfax made a big mistake with its aggressive P/C insurance acquisition campaign from 2015 to 2017?

Great question. Let's explore this next.

Fairfax: Float (Including Runoff)			Effective
31-Dec	Total $ b	Per Share	Shares
2014	$15.1	$712	21.2
2015	$17.1	$770	22.2
2016	$16.7	$723	23.1
2017	$22.7	$817	27.8
3-YR Change	$7.6	$104	
	50%	15%	

Big capital allocation decisions need to be evaluated over a 5 to 10-year time horizon.

To evaluate Fairfax's P/C insurance acquisition strategy from 2015 to 2017, let's fast forward to December 31, 2024.

How do things look 7 years later?

Since 2018, Fairfax has been aggressively 'deleveraging' the equity part of its balance sheet. It has been buying back stock. And it has been taking out its minority partners.

At the same time, Fairfax has been aggressively growing its P/C insurance business.

Let's review each of these in more detail.

Equity 'deleveraging' part 1 – Share buybacks (effective):

Before embarking on its P/C insurance expansion, shares outstanding at Fairfax was 21.2 million (Dec 31-2014). Shares outstanding peaked at 27.8 million (Dec 31-2017). At Dec 31-2024, the share count had fallen to 21.7 million. Over the past 7 years, Fairfax has been able to re-purchase almost all the shares that it issued from 2015 to 2017.

But the story gets better. **Fairfax was able to repurchase the shares at an average cost of $637/share.** This was a crazy low average price. (And it was only a slight premium to the average issue price of $456.)

Common Stock Effectively Outstanding – At December 31				
	Dec 31	Annual Change		Avg Price
2017	27,751,073	n/a	n/a	Per Share
2018	27,237,947	-513,126	-1.8%	$509
2019	26,831,069	-406,878	-1.5%	$464
2020	26,176,506	-654,563	-2.4%	$298
2021	23,865,600	-2,310,906	-8.8%	$490
2022	23,325,305	-540,295	-2.3%	$509
2023	23,003,248	-322,057	-1.4%	$764
2024	21,668,466	-1,334,782	-5.8%	$1,179
7-year Change		**-6,082,607**	**-21.9%**	**$637**

Equity 'deleveraging' part 2: Take-out minority partners

Fairfax has been slowly taking out its minority partners. As a result, at December 31, 2024, Fairfax owned:

- Eurolife = 80% (remaining 20% is owned by Eurobank)
- Brit = 100%
- Allied World = 83.4%

My guess is Fairfax will increase its ownership stake in Allied World to 100% in the next 24 months. And because of the call option feature, Fairfax has been able to take out its minority partners at a very reasonable price (it has not had to pay a premium).

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Let's now pivot and look at Fairfax's insurance business. How does it look?

P/C insurance business

Fairfax's P/C insurance business has been completely transformed over the past 10 years. The transformation has happened in two phases:

1. P/C insurance growth by acquisition (2015 to 2017) – Build out global platform.
2. Hard market (2020 to 2024) – Grow organically.

At the same time, Fairfax has been able to get effective shares outstanding back down to 2014 levels.

Over the past 10 years, measured per share:

- NPW has increased by 304%, which is a CAGR of 15.3%.
- Float has increased by 198%, which is a CAGR of 11.5%.

And with Fairfax taking out its minority partners, almost all of this growth has accrued to Fairfax's long-term shareholders.

Fairfax: 10-Year Per Share Growth in NPW and Float					Effective
	Net Prem Written		Re/Insurance Float		Shares
31-Dec	Total $b	Per Share	Total $b	Per Share	m
2014	$6.1	$289	$11.6	$547	21.2
2018	$12.0	$442	$19.5	$717	27.2
2024	$25.3	$1,166	$35.4	$1,631	21.7
10-Year Change		**$877**		**$1,084**	**0.5**
		304%		**198%**	**2.4%**
10-Year CAGR		**15.3%**		**11.5%**	

Summary

What have we learned?

In 2014, Fairfax saw a significant opportunity to grow its P/C insurance business through acquisition. To capitalize on it they did the following:

- Acted with conviction and sized their bet very well. They made a large number of acquisitions.
- They bought quality.
- They did not overpay. P/C insurance companies were out of favour. The acquisitions were made with a margin of safety.
- They were very creative with their use of leverage. Fairfax used 'other people's money' to fund the majority of its purchases: a mix of debt and equity (Fairfax shares and minority partners). Using minority partners allowed Fairfax to keep total debt and new share issuance (Fairfax shares) to a reasonable level.

With hindsight, Fairfax's timing was perfect. The company had a couple of years to integrate the new businesses before the start of the hard market in late 2019. Fairfax has been able to fully exploit the historic hard market over the past 5 years. Growing organically in a hard market is the best kind of growth (it is very profitable).

Ten years later, Fairfax's P/C insurance business has been transformed. It is much larger (global), much higher quality and much more profitable. The insurance business is much more diversified and has much better growth prospects. **Re/insurance float (the best kind of leverage) per share increased by 198% over the past 10 years, a CAGR of 11.5%.** In turn, this has also transformed Fairfax and spiked earnings higher.

A significant amount of the earnings that have been generated in recent years has been used to 'deleverage' the equity part of Fairfax's balance sheet. Effective shares outstanding have been reduced back to 2014 levels – and shares were repurchased at very favourable prices. And Fairfax has begun the process of taking out its minority partners, also at very favourable prices (given all the growth that has occurred).

Fairfax has been playing the long game. Their actions have been very shareholder friendly.

Over the past 10 years, the per share value creation for long-term Fairfax shareholders has been enormous. Yes, some luck was involved. **But as we learn from Fortuna, the Roman goddess of luck, 'fortune favors the bold.'**

Addressing the elephant in the room

My guess is many of you reading this feel that it is wrong to view equity issuance (specifically share issuance and using minority partners) as a type of leverage.

I do it because I think it gives an investor a slightly different and interesting way to look at equity issuance (shares, minority partners etc). Especially for firms, like Fairfax, who actively use 'equity' as an important part of their capital allocation framework (using it tactically - flexing it up and down in different ways over the years). Kind of like a temporary source of financing (yes, 10 years is short term for Fairfax). Please let me know your thoughts on this topic.

Chapter 10: Elements of Fairfax's Secret Sauce

Fairfax was founded in 1985. If you had invested $1,000 with Prem Watsa and the team at Fairfax at the very beginning you would now have more than $1 million. Yes, that is an amazing return for a long-term investor (a CAGR of 19% over 40 years).

The narrative for Fairfax is upside down

Fairfax is well known for a few of the big mistakes made that it has made. What is not well known are the many important things that the company got right. And given its outstanding performance over the past 40 years, it got way more right than it got wrong.

What is it that makes Fairfax a great company?

What did/does it get right?

The answers go way beyond the numbers. Among other things, it includes the people, structure and culture - and a moat that has been slowly growing in size around the company for the past 40 years:

- Prem Watsa (founder and CEO) - Driven, optimistic, risk taker, unconventional, 'right' temperament, able to attract and retain talent, nice and more…
- High quality management - Fairfax is stacked with quality people in all parts of the organization.
- A very shareholder friendly approach.
- A proven organizational structure.
    - Decentralized operations - Run by outstanding entrepreneurs.
    - Centralized capital allocation - Run by a best-in-class team.
- Long term focus.
- A strong culture - Its employee retention has been very strong – most of its senior executives have been with the company for decades.

These are the topics we will explore in this chapter.

Overview of the posts in this chapter:

Decentralized Operating Structure – Walking the Talk in Insurance (Profit Centres)

How strong is Fairfax's culture? Looking through the lens of employee retention

The benefits of having a decentralized operating structure:

- Part 1: The big picture - Prem Watsa
- Part 2: Grow organically - Silvy Wright - President - Northbridge
- Part 3: Grow by acquisition - Lou Iglesias - President - Allied World

Getting employees to think like owners – Fairfax's compensation programs

Personnel Changes and Succession Planning

Decentralized Operating Structure – Walking the Talk in Insurance (Profit Centres)

March 8, 2026

Decentralization. Is this important to an investor in Fairfax? Yes. How important? Very.

Fairfax is walking the talk when it comes to decentralization - this is one of the core building blocks of its organizational structure, competitive advantages and moat.

The number of profit centres in its insurance business continues to increase every year:

- 2025: 275
- 2024: 250
- 2023: 225
- 2022: 200

We see a similar dynamic at play in its investment management business. In 2025, Quess was split into three companies: Quess, Digitide and Bluspring. Additionally, the Keg was spun out of Recipe (both are still private holdings).

Benefits: transparency, accountability and empowerment, resulting in strong employee retention and better business results. This isn't a sexy topic. But it very important for long term shareholders.

2025AR: "We have over 275 profit centres across our group. Each profit centre is focused on a unique set of customers, geographies or products that benefit from market leadership, product knowledge and the ability to provide excellent customer service. These profit centres facilitate transparency, enabling Andy Barnard, Brian Young and Peter Clarke to effectively monitor the insurance operations. Empowerment thrives at Fairfax. We are always working on making our companies more indispensable to our customers."

2024AR: "We have over 250 profit centres across our group."

2023AR: "With the addition of added business from GIG, the $32 billion in consolidated gross premiums written is generated through our more than 225 profit centres across the group."

2022AR: "The $27.6 billion of our consolidated gross premiums is generated through approximately 200 profit centres across the group."

How Strong is Fairfax's Culture? Looking Through the Lens of Employee Retention

April 23, 2025

At Fairfax's AGM in April 2025, Prem talked about Fairfax's culture. It has taken Fairfax years to build it. And it will be very difficult for a competitor to duplicate it. **He said that Fairfax's strong culture was its moat.**

How do you measure the strength of an organization's culture?

Probably the best way is by looking at employee retention/turnover. Organizations with a strong culture have very strong employee retention and low turnover (among its management team).

A second way is to look at succession planning and how important roles are filled. Organizations with a strong culture promote primarily from within.

How does Fairfax stack up?

Fairfax is doing their best to help investors better understand the strength of its culture.

Andy Barnard, Chairman of Fairfax's insurance operations, shed some light on this very important topic and the AGM in April 2025:

So of course, we had a fantastic year in 2024, $1.8 billion of underwriting profit. 7 of our companies achieved record underwriting profits during 2024, which we're very pleased and happy and proud to see.

(W)hat I'd like to focus on… is the reasons that we've been able to achieve this success. **And I'd like to go back to that slide that Prem shows every year… that shows the tenure of our CEOs across Fairfax because I really don't think there is any more important factor behind our success than what that slide reveals.**

Continuity of management is just so vitally important in our industry as it is in many businesses. (B)ut I think it's especially important in the insurance business. It allows us, over time, to build, to

grow, to improve our operations. And we do so without the distractions and the disruptions that come from changes at the top.

Now for those of you that might follow the trade press in our industry, you would see amongst many of our competitors, and I'm sort of referring to the global commercial, property and casualty market, which is really the main theatre that we operate in. But for so many of these companies, it's just a revolving door. And it's not just… the CEO. (B)ut it is also many of their key executives. And this creates circumstances that make it very hard for companies to have the stability that enables them to thrive and improve and build and grow over time.

At Fairfax, our decentralized operating philosophy, whereby we keep our company separate and autonomous creates a much more favourable, much more rewarding environment for our CEOs and for their management teams. And it is that environment that allows them to continue to build and grow and improve their operations. And that's what you're seeing in the results that we've been able to achieve at Fairfax.

And… we've said this many times. We may say it every one of these meetings, we are so blessed. And this gets better and better every year because of that continuity, but we are so blessed with the remarkable collection of CEOs and leaders that we have running our companies. And again, I don't think there is any more important explanation for the underwriting success that we've been able to achieve.

Prem referred to our moat, the culture of Fairfax being our moat. This retention of employees is really something that is attributable to the unique culture that we've had at Fairfax: supportive, rewarding, empowering. And that's what's enabled us to have this remarkable duration. I would say if you compare us to any of the major companies in that global P&C world. I don't, think you would find anyone with close to the duration of tenure at the top. And not just at the top, at the very top, but also amongst their senior management teams that you find at Fairfax.

Andy Barnard – Fairfax AGM – April 2025

The Benefits of Having a Decentralized Operating Structure – 3 Views: Prem, Silvy and Lou

April 23, 2025

Investors spend a lot of time trying to understanding the numbers. Because it is relatively easy. Other things like company structure and culture gets very little attention. Because they are much more difficult things to understand and evaluate.

Fairfax has a decentralized operating structure. One advantage of having a decentralized operating structure is it promotes an entrepreneur mindset among employees. This can be a very powerful driver of results - today and (more importantly) in the future.

In recent months Fairfax has been explaining to shareholders the importance of its decentralized operating structure. Prem included a long section on this topic in his letter to shareholders in the 2024AR. This covered the big picture. And at Fairfax's AGM in April of 2025, we heard from the presidents of Northbridge and Allied World. Their comments got more into the weeds. Going to Fairfax's AGM and listening to the presidents speak - attendees get to see/hear first-hand:

- The quality of the people running the insurance businesses.
- The entrepreneurial spirit that is shining through the different companies.

Fairfax's structure attracts and rewards entrepreneurs. Fairfax has been methodically/patiently working at it for 39 years. Today, Fairfax has put together an amazing collection of companies - all lead by entrepreneurs - both in its insurance companies and non-insurance equity investments. This positions the company exceptionally well for the future.

What Fairfax has built over the past 39 years would be exceptionally difficult to duplicate - and it would take a long time. A decentralized operating structure is an important part of Fairfax's moat. Even if it is not well understood by investors.

In this post we will explore Fairfax's decentralized operating structure:

- Part 1: The big picture - Prem Watsa
- Part 2: Grow organically - Silvy Wright - President - Northbridge
- Part 3: Grow by acquisition - Lou Iglesias - President - Allied World

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Part 1: The Big Picture – Prem Watsa

In the 2024 annual report, Prem began his shareholder letter by discussing Fairfax's decentralized operating structure and its importance to the success of the company. We have included the full quote below.

> Since we began in 1985, 39 years ago, our book value per share has compounded at 18.7% per year (including dividends) while our common stock price has compounded at 19.2% (including dividends) annually. As I have mentioned previously, our success throughout our history and again in 2024, has come under a decentralized structure with outstanding management executing a disciplined approach to underwriting.
>
> Over the years, those who have followed Fairfax, read our letters and attended our annual meeting, are well aware that we are passionately devoted to the decentralized operating philosophy. This year, I want to spend more time on this subject. Aside from helping inform our shareholders about our thinking in the past and present, I have an ulterior motive that comes from an eye on the future. As Fairfax rolls into the future, your Chairman (gradually) passes leadership to the next generation, and they, in turn, to later generations; it is very important that we memorialize why decentralization is

such a critical feature of Fairfax. I want and expect Fairfax to thrive over the next 100 years, and well beyond. To do so, I believe it is of paramount importance that we never abandon our decentralized approach!

So, why are we so fervently attached to this model? At its foundation, decentralization places its faith in the many rather than the few. Embedded in the Guiding Principles, which we have published every year in this report, is our deep and abiding respect for the fact that we are all created equal before God. All of our offices display prominently The Golden Rule; treat others as you want to be treated yourself as depicted in all the religions of the world. All of our CEO's have a plaque with the following quote Ronald Reagan loved so much and kept on his desk: "There is no limit to what a man can do or where he can go if he doesn't care who gets the credit." Decentralization is the best system for unleashing the power of the many, rather than being limited to the talents of the few. And it aligns so perfectly with the foundational values of Fairfax since its inception. Our optimism in what empowered people can accomplish is unbounded!

What are the advantages of an empowering, decentralized operating system? Let me count the ways:

1.) Ownership and Accountability

Each of our CEO's is given full autonomy over all underwriting and operational functions within their company, other than investments. They set strategy and tactics. They are responsible for managing risk within the limits of their allocated capital. Accordingly, they are fully accountable for underwriting performance and its results. The decisions implemented in their companies are their own, not those passed down from above.

2.) Management Retention

A direct benefit of this Ownership Culture is the exceptional continuity of management we enjoy at Fairfax. As I write this, our Presidents and Senior Executives at Fairfax average close to 20 years of service. We are big believers in the benefits that come from this continuity. Rather than shuttling in new leaders every four or five years, our companies are able to continually build on success, without undergoing the strategic U-turns that management turnover often brings.

3.) Flexibility and Nimbleness

The autonomy our companies enjoy allows a degree of operating agility absent from large, centralized organizations. Our performance during the recent hard market years of 2020 to 2023 bear this out, as we advantageously expanded at an industry leading pace! We rely on the expertise and judgment at each of our companies, and we do not prescribe from the top. For example, when the cyber insurance market underwent radical change at the end of 2020, we had four of our major companies dramatically expand their activity, each pursuing a different strategy. Had we imposed a one-size-fits-all approach to this challenging class, the growth would have been a fraction of what it was.

4.) Reduced Leakage from Acquisitions

We do not, as a general rule, look to integrate acquisitions into existing operations, which means we keep much more of the business and people we acquire. Our industry is replete with examples of

acquisitions that have little to show after three or four years because people have left and portfolios have melted away!

5.) Financial Flexibility

Maintaining independent, separately capitalized companies gives us a source of financial flexibility. While it will always be the case that none of our companies is for sale, there may be times it makes sense for us to sell a minority stake. Witness the sale of 10% of Odyssey a few years ago, enabling us to make a large share re-purchase at an opportune time.

At Fairfax, for today and the future, we believe the best conditions for operating success depend on the Three Ts:

1.) Trust must be reciprocal between the holding and operating companies. Trust has to be earned and its strength increases over time. Decentralization cannot work without it.
2.) Transparency with clear and open communication is required at all times.
3.) Talent is necessary to operate successfully at a high level in a challenging industry.

There are those who might look at Fairfax from the outside and lay out a plan that would, on paper, describe myriad benefits to be obtained by abandoning our approach. They would do so without being able to quantify the intangible benefits we enjoy. It is vitally important to me that the Fairfax approach does not change because I believe our long-term success depends on it!!

Prem Watsa – Fairfax 2024 Annual Report

Part 2: Driving Organic Growth - Silvy Wright - President - Northbridge

Background

The Athappan Cup was established at Fairfax in 2024. It will be awarded at the AGM each year to one of Fairfax's insurance companies for underwriting excellence. The first-ever winner of the award was Northbridge Financial. The company delivered a 90.1% CR over the past 5 years - with reserve redundancies every year.

What was Northbridge's secret sauce? At the AGM, Silvy Wright gave us some insight into what has enabled Northbridge's stellar performance over the past 5 years. She took attendees back in time. And highlighted the importance of Fairfax's decentralized operating structure - and how it allowed Northbridge to transform its Canadian operations in 2010 (operationally - the brining together what had been 4 separate companies). Today, we are seeing the benefits of this transformation in the underwriting results that Northbridge has been able to deliver over the past 5 years.

Comments from Silvy Wright at Fairfax's AGM in April 2025:

(A)s you can appreciate, we've all had different journeys, and mine started in 1994. So I just want to take just a few moments to share an employee experience. And that's me.

In 1994, I joined Markel. And Markel, as you all know, was the first company Prem bought. And in 1994, Markel was about $60 million in revenue (and) 60 people… I was not a president 30 years ago. Well, my parents would have been pretty proud if that happened. But I wasn't the president back then. (When) I joined, I was an accountant, but with a strong entrepreneurial drive.

And it was very clear to me, when I joined Markel, that Prem's philosophy on decentralization really inspired that entrepreneurial spirit in Markel. There were 60 of us. And when I refer to entrepreneurial spirit, I'm thinking you feel like an owner of the company, so you work like an owner of the company. You've got the freedom to take risks or you have the freedom to challenge the status quo. And then you have a great sense of pride of what you do. And that spirit lived in all 60 people, from the collections manager who collected every dollar like her own, to the underwriting head who developed strong relationships with the customers. And within that environment, all the employees built the leading transportation insurer of Canada.

Now of course, it didn't happen overnight, but over the years, that's what all the employees did. So flash forward, so I'm still here, 16 years later, I learned a lot at Markel, a lot of freedom, a lot of mistakes, learning along the way, and I was appointed the CEO of Northbridge Financial (in 2011). Northbridge Financial represented the Canadian insurance operations of four separate companies.

And at that time -- I know you're not going to like this Prem. But at that time, we asked for the unthinkable. And that is to bring the 4 companies together from an operational perspective. And we asked for that because we really wanted to compete more effectively in the changing landscape in Canada. Not for layoffs -- we didn't have layoffs. But we knew that we could leverage the combined talents of the group. We can leverage the diverse portfolios that we had in the various companies so that we could be a stronger force with the broker distribution and then obviously to leverage scale to invest in that company. So that's what we did.

But the top goal of that beginning was not that obvious. The obvious was, okay, you're going to make changes, you better make a profit. The top goal was not that. The top goal, having been with Fairfax already 16 years at that time, was to build the culture and the entrepreneurial spirit that I knew creates success in the long term.

And so that's what we did. We empower -- we continuously fostered an employee empowerment. And empowerment does not work if it just sits at the top, right? Yes, presidents have freedom. But the success is when you cascade that empowerment throughout the organization. When people feel that they have the freedom to challenge the status quo, to come up to the president and share an idea, and that's what we've done. And we're not perfect, but we've unleashed a lot of talent, and it's all in the talent of those employees that we have established a very good record. And now we have a nice shiny silver cup.

So, with that, thank you… Prem… the trust… we both took a risk, and it paid off.

Silvy Wright – Fairfax AGM – April 2025

Part 3: Driving Growth by Acquisition – Lou Iglesias – President – Allied World

Background

Fairfax purchased Allied World in 2017. In terms of size, at the time it was a massive purchase for Fairfax. Allied World has since become a big success story for Fairfax (and the senior management team and employees of Allied World). It was a purchase that almost didn't happen. Why it did happen is instructive.

At the AGM, Lou Iglesias told attendees the story of why Allied World decided to sell their business to Fairfax back in 2017. The story highlights the importance of Fairfax's decentralized operating structure - and how it was a key part of Allied World's decision-making process. And how it will likely help Fairfax with acquisitions in the future.

Comments from Lou Iglesias at Fairfax's AGM in April of 2025:

It's good to see everybody. Obviously, one of the themes at the AGM this year is decentralization. So, I thought I would… talk about Allied World and decentralization and how it affects an operating company. And I'd like to start with a little story. I know some of my new friends that I met last night would like to hear a story about that.

So going back to 2016, 2017 time-frame. At Allied, we were looking for a transaction, right? We were a midsized public company. We thought getting a bigger, better platform would help us continue our journey, build our company out. We felt that we still had the ability to create a lot of value.

So we were talking to several suitors. And one, we got pretty far along with. We were working with them for over a year, and we're getting close to the finish line. And so now we're getting into the details. And we started to realize that this would be a merger and that it would be likely that Allied World would be broken up. And that didn't sit very well with us. It wasn't what we wanted as a company. So that transaction never happened.

Shortly after that, we get a call from Fairfax. And at the time, we didn't know a lot about Fairfax. We were a little bit tired of working for over a year on a transaction that didn't work, and we were a little reluctant. But Prem said, wait a minute, Fairfax does things differently. You should hear us out. And we all know Prem could be very convincing. So we took the meeting, and we heard a lot about the Fairfax culture, which sounded very good to us. And we heard a lot about decentralization in the independent operating model, which sounded great to us because, again, we felt that we still had a great runway to build our company out.

So, we finished a meeting. I went across the street to the restaurant with John Bender and Wes DuPont, who are sitting up there and a couple of others. And being the good underwriters that we are, we were kind of skeptical, a little bit. Prem loves to tell that story. We're a little skeptical, but we did our diligence, and we found out, yes, that is how they do it at Fairfax. And we did the transaction. And very quickly, since Fairfax exceeded most of our expectations, the skepticism went away, right? So very quickly, we got past that.

But the point of this story is, number one, decentralization was so important to Allied World that it's likely that we may never have been part of Fairfax if it wasn't for it. And I think the second thing to take away is that I think Fairfax is going to have the #1 slot to talk to companies and acquire companies that still feel that they could do great things, right? Because that's the platform that you want to be able to move your company forward. So we had our own same management team, staff, strategies, no layoffs, right, and we move forward.

So where does that bring us today? So, if you look at the full 6 years that we've been part of the Fairfax family we've posted over $1.6 billion of underwriting profit, over $3.6 billion of net income. Our combined ratio has improved for 6 years in a row every year. In 2024, just last year, we had $540 million of underwriting income, which is a record for Allied World and our third record year in a row. And we've more than doubled the size of the company at over $7.2 billion since we were acquired.

So, a lot of things go into that. I credit our people, who I think are fantastic, and Andy talked about people. The ability to keep the best people certainly is a huge part of the results that I just talked about. That's one thing. We have great professionals at our company.

But I'd also say, I could say with great confidence that in a centralized company or in a merged company, that level of performance I don't think would have been possible. And prior to Allied World, I was with a large centralized company for many years so I could see the differences pretty clearly. And they're stark, right? **The ability to run your business, the ability to carry out your strategy seamlessly, to keep the best people, the lack of bureaucracy which is a really, really big benefit for all the Fairfax companies, is tremendous.**

And last thing I really want to touch on is trust because I don't believe that you could have a successful decentralized operation without trust, right? And we trust Fairfax explicitly. We believe they trust us as well. But trust equals transparency, right? So you could have decentralization. We have a tremendous amount of transparency without having to write thousands of reports, right? Andy and I, in a 1-hour call, will cover what would take me 7 hours of reports that I would have had to write, okay? Transparency is key.

And I also think that Fairfax deserves a tremendous amount of credit. It's not easy to run a large decentralized company as successfully as they do, a large global company. It takes dedication, takes discipline, professionalism, and it takes a very unique skill set to be able to do it effectively. So great credit to Fairfax. And I think all the operating companies benefit tremendously.

Lou Iglesias – Fairfax AGM – April 2025

Getting Employees to Think Like Owners – Fairfax's Compensation Programs

April 27, 2025

Fairfax has two programs designed to encourage employees to become shareholders:

- Annual bonus program for senior executives
  - 50% in cash and 50% in Fairfax shares with a 5 year vesting period.
- Employee stock ownership plan
  - Up to 10% of salary can be taken in Fairfax shares. The company will automatically match at a 30% level. If certain targets are met (primarily underwriting profit) the company will provide an additional match of 20%.

By encouraging employees to own shares in the company, Fairfax is encouraging employees to think like owners. This is one way of getting the interests of employees aligned with those of long-term shareholders.

Prem explains Fairfax's annual bonus program for senior executives in his shareholder letter in the 2024 annual report.

> We continue to encourage all our employees to be shareholders of Fairfax. We think it will be a great investment for them over the long term and great for the company to have our employees as shareholders in the company. After all, no one washes a rental car! As part of that initiative, close to 10 years ago we decided to have a general principle that our annual bonuses to senior executives across the company would be awarded 50% in cash and 50% in Fairfax shares that vest in five years. As these bonus shares are awarded, the company buys the shares in the market (which comes out of shares outstanding) and they are recorded as treasury shares, as shown in the table below. As the shares are vested and or exercised, the shares are then reissued and come out of treasury shares and back into shares outstanding. You can see over the years our treasury shares have increased from approximately 400,000 to almost 2 million today – we think this is fantastic and hope they continue to grow over time. You will notice that the treasury shares acquired have remained relatively consistent over the last 10-year period especially when compared to our increased employee numbers. Our total compensation, including benefits, paid to our employees worldwide was $2.6 billion in 2024 of which $240 million was awarded in Fairfax shares. As I have said in the past, we would love to have all our employees as owners of Fairfax. Of course, no new shares are issued for these plans. They are all bought in the market.

	Treasury Shares	Acquired in the Year	Reissued in the Year
		(in millions)	
2014	0.4		
2015	0.6	(0.2)	0.1
2016	0.7	(0.1)	0.0
2017	0.9	(0.3)	0.0
2018	1.2	(0.4)	0.1
2019	1.4	(0.2)	0.1
2020	1.7	(0.5)	0.1
2021	1.9	(0.3)	0.1
2022	2.0	(0.3)	0.1
2023	2.0	(0.1)	0.2
2024	2.0	(0.2)	0.2

Prem explains Fairfax's employee stock ownership plan in his shareholder letter in the 2024 annual report.

> Fairfax also has an Employee Stock Ownership Plan that is available to essentially every employee in the company. The plan offers each employee the opportunity to take up to 10% of their salary annually in Fairfax shares. The company will automatically match 30% and then if certain targets are met (primarily underwriting profit) the company matches an additional 20%. The participation rates differ by company but generally for our large companies, we have approximately 60% participation and it has been increasing over time (more on this plan in the Miscellaneous section).

Personnel Changes and Succession Planning

July 19, 2025

Please note, this post is a first draft/rough copy. However, it is important and complete enough that I thought I would include it. Please keep this in mind as you are reading it.

Reviewing personnel changes can teach us a lot about a company.

- Why do vacancies happen?
- How are vacancies filled?
- What can we learn about succession planning?

What is happening (and how it is happening) can give us important insights into how well senior management is performing their responsibilities when it comes to succession planning. They can also give us important insights into the culture of the company.

This is especially important for a founder led company like Fairfax. The transition from founder led to the next generation can be tricky (just ask Markel shareholders if you don't believe me).

What has Fairfax been doing in recent years on the personnel front?

Fairfax has a deep bench of very talented employees. Most (all?) important positions are filled internally.

People generally don't leave Fairfax. Even when they hit 'normal' retirement age.

Fairfax is creative in how it executes succession planning. New roles are created when necessary. This allows older employees to continue to contribute in a meaningful way. And allows younger 'stars' to take on additional responsibilities.

For important transitions, there is often a multi-year 'hand off' period. Increased responsibility is given gradually.

Incumbents tent to stick around in 'executive' roles. They are able to mentor younger replacements.

A review of key personnel changes in 2025

June 26, 2025: Fairfax Welcomes Mr. Amitabh Kant as Senior Advisor

> …leveraging Mr. Kant's extensive experience in spearheading large-scale development initiatives spanning digital infrastructure, urban renewal, industrial reforms, and tourism, is expected to bring significant value to Fairfax and its affiliates.
>
> "We are truly excited to welcome Amitabh to our Fairfax family," said Prem Watsa, Chairman and Chief Executive Officer of Fairfax. "As his experience shows, Amitabh has outstanding experience in many of the key areas that India intends to grow significantly in coming years, but what we really value is his high integrity and alignment with the values of Fairfax. We look forward to working with him to further enhance Fairfax's long-term objectives, delivering lasting value for our investors and stakeholders, while upholding our core values of honesty, transparency, and entrepreneurial spirit."
>
> https://www.fairfax.ca/press-releases/fairfax-welcomes-mr-amitabh-kant-as-senior-advisor-2025-06-26/

April 10, 2025 – Christine Magee appointed as new board member

We are very pleased to announce that Christine Magee has agreed to join our Board as an independent director. Christine co-founded Sleep Country in 1994, establishing it as a prominent player in the sleep products industry and prior to that worked in the banking and financial services industry in Canada. Christine is currently the Chair of the Board of Sleep Country. We will benefit greatly from her business experience and entrepreneurship. *Fairfax 2024AR*

March 7, 2025: Executive Announcements

- Amy Sherk appointed CFO
- Jennifer Allen Chief (former CFO) appointed Chief Business Officer

TORONTO, March 07, 2025 – Fairfax Financial Holdings Limited is pleased to announce that, effective March 10, 2025, Amy Sherk has been appointed Chief Financial Officer of Fairfax and Jennifer Allen, who has held this position since 2019 and been with Fairfax for 19 years, will transition into the new role of Chief Business Officer of Fairfax.

Amy has been with Fairfax group companies for over 20 years, most recently serving as Chief Financial Officer of Fairfax India Holdings Corporation ("Fairfax India"). As also announced today, Debbie Chalkley, who has been with Fairfax group companies for over 13 years, has been appointed Chief Financial Officer of Fairfax India, effective March 10, 2025.

Prem Watsa, Chairman and Chief Executive Officer of Fairfax, commented, "We are so fortunate to have the strong depth within our group to continue, as we have in the past, to allow for internal succession and our senior personnel to move between executive roles. We thank Jenn for her tireless dedication to Fairfax while serving as our CFO over the past six years where she did an exceptional job for us. We are thrilled that Jenn will continue with Fairfax by serving in her new role as Chief Business Officer where she will work on key strategic initiatives designed to support our growth, while ensuring her successor, Amy, is well supported in her transition. Amy has been outstanding in her numerous roles with Fairfax companies over the past 20 years and is the natural successor to Jenn, just as she was at Fairfax India. We know from our long relationship with Amy that she has the knowledge, commitment and experience to seamlessly assume the CFO position at Fairfax."

https://www.fairfax.ca/press-releases/executive-announcements-2025-03-07/

Jan 3, 2025 Personnel Announcement

- Brian Young has become Chairman of Fairfax Insurance Group

TORONTO, Jan. 03, 2025 – Fairfax Financial Holdings Limited is pleased to announce that, effective January 1, 2025, Brian Young has become the President of Fairfax Insurance Group and Andrew Barnard, who has held this position since 2011, has moved to the role of Chairman of Fairfax Insurance Group.

Brian joined Odyssey Group in 1996 and has served as its Chief Executive Officer since 2011. Odyssey has thrived under Brian's leadership, generating an underwriting profit for 13 consecutive years and nearly tripling in size during his tenure.

Effective January 1, 2025, Carl Overy has become the Chief Executive Officer of Odyssey, leading its three operating platforms: OdysseyRe, Hudson, and Newline. Carl has served as the Chief Executive Officer of OdysseyRe since April 2023 and previously served as the Chief Executive Officer of Newline and the London branch of OdysseyRe for 15 years.

Prem Watsa, Chairman and Chief Executive Officer of Fairfax, commented: "Brian and Andy have worked together for nearly 35 years, the last 28 at Fairfax. Our expansive global (re)insurance operations will benefit greatly from their collective oversight. Carl is a proven leader who has devoted more than two decades of his life to Odyssey. We have no doubt that Odyssey will scale new heights under his leadership in the years to come."

https://www.fairfax.ca/press-releases/personnel-announcements-01-03-2025/

A review of key personnel changes in 2024

June 4, 2024 Personnel Announcement

- Gobi Athappan is appointed CEO of Fairfax Asia

Fairfax Financial Holdings Limited ("Fairfax") (TSX: FFH and FFH.U) is pleased to announce that Gobinath Athappan has been appointed Chairman and Chief Executive Officer of Fairfax Asia and will be appointed Chairman of Singapore Re after regulatory approval. Gobi has done an outstanding job over his 23 years with Fairfax and Fairfax Asia. Over this time period, Gobi has been the Chief Executive Officer of each of Fairfax's Falcon Insurance in Hong Kong and Pacific Insurance in Malaysia and has been the Vice-Chairman of Fairfax Asia since 2015.

Prem Watsa, Chairman and Chief Executive Officer of Fairfax, commented: "Gobi has done an outstanding job for Fairfax and has been an integral part of building Fairfax Asia. Gobi brings many years of industry experience and has been an ambassador of the culture of Fairfax. We are very excited for the future of Fairfax Asia under Gobi's leadership."

https://www.fairfax.ca/press-releases/personnel-announcement-june-4-2024/

June 3, 2024 Fairfax India Announces Management Succession Plan

- Ben Watsa is appointed Chairman of Fairfax India
- Prem Watsa (former Chairman) will continue to serve on the board of Fairfax India
- Gopal Soundarajan is appointed CEO of Fairfax India
- Chandran Ratnaswami (former CEO) becomes Executive Vice Chairman of Fairfax India

This was a significant move. Ben Watsa gets more responsibility.

Fairfax India Holdings Corporation ("Fairfax India" or the "Company") (TSX: FIH.U) announces that Prem Watsa, Chairman of Fairfax India's board since 2015 will step down as Chairman and Benjamin (Ben) Watsa will be appointed as Chairman of the Company's board effective July 1, 2024. Prem will continue to serve on the board of directors of Fairfax India.

Ben is the Founder and CEO of Marval Capital Ltd. ("Marval"), which began operations in 2017. Marval is an investment firm that focuses on the Indian market, specializing in small and mid-cap publicly listed companies. Ben began his career in 2001 and has twenty-three years of experience in the investment industry. Prior to Marval, Ben worked at Lissom Investment Management Inc. ("Lissom") for 11 years where he was a Partner and Portfolio Manager and managed Lissom's small and mid-cap North American equity fund. Before Lissom, Ben spent over five years in New York as an investment banker in the Financial Institutions Group as an analyst at Banc of America Securities and as an associate at Cochran Caronia Waller. Ben also serves as a director of Fairfax Financial Holdings Limited ("Fairfax").

In addition, Fairfax India is pleased to announce that, Gopalakrishnan (Gopal) Soundarajan, currently the Chief Operating Officer and a director of Fairfax India will be appointed Chief Executive Officer (CEO) of Fairfax India effective July 1, 2024. The current CEO of Fairfax India, Chandran Ratnaswami will become Executive Vice Chairman of Fairfax India effective July 1, 2024. Gopal joined Fairfax in 2019 and has played an important role in Fairfax and Fairfax India's investments in India. Prior to joining Fairfax, Gopal was head of investments at ICICI Lombard General Insurance Company Limited ("ICICI Lombard") and had an outstanding track record managing ICICI Lombard's investments.

Chandran joined Fairfax as a Portfolio Advisor and Director of International Investments in 1993 and has been CEO of Fairfax India since its inception in 2015. In his role as Executive Vice Chairman, Chandran will continue to remain fully engaged in the Company's investments and operations and will continue to serve on the board of directors of Fairfax India.

Sumit Maheshwari, Managing Director and CEO of Fairbridge Capital Private Limited will continue to manage Fairfax India's investment operations on the ground in India. Both Sumit and Gopal will continue to report to Chandran in his role as Executive Vice Chairman.

Prem Watsa, Chairman of Fairfax India, commented, "Fairfax India has thrived under Chandran's leadership since its inception 9 years ago. We are so fortunate to have the executive depth within the

Fairfax family to continue, as we have in the past, to execute sound succession planning. Chandran, Gopal, Sumit and myself are focused on continuing to grow Fairfax India over the long term."

https://www.fairfaxindia.ca/press-releases/fairfax-india-announces-management-succession-plan-june-3-2024/

May 23, 2024 Fairfax Announces the Passing of Ramaswamy Athappan

https://www.fairfax.ca/press-releases/fairfax-announces-the-passing-of-ramaswamy-athappan-2024-05-23/

May 6, 2024 Fairfax Announces the Passing of Eric Salsberg

https://www.fairfax.ca/press-releases/fairfax-announces-the-passing-of-eric-salsberg-2024-05-06/

May 3, 2024 Earnings conference calls

- Prem Watsa (CEO) steps back from conference calls.

Beginning with Q1, 2024, conference calls were handled by Peter Clarke (President, COO), Wade Burton (President, CIO Hamblin Watsa) and Jennifer Allen (CFO).

A review of key personnel changes in 2023

Feb 21, 2023 Personnel Announcement:

- Brian Young – to share oversight responsibilities with Andy Barnard,

TORONTO, Feb. 21, 2023 (GLOBE NEWSWIRE) — Fairfax Financial Holdings Limited is pleased to announce that, in connection with recent management changes at Odyssey Group, Brian Young, CEO of Odyssey Group, will begin to share oversight responsibilities with Andy Barnard, President of Fairfax Insurance.

Group, over all of Fairfax's insurance and reinsurance operations.
Brian Young will continue as CEO of Odyssey Group and, effective April 1, 2023, Carl Overy, presently CEO of Odyssey's London Market Division, will become CEO of Odyssey's Global Reinsurance Business. Bob Pollock, presently head of Odyssey's U.S. Financial Lines, Cyber and Worker's Compensation business, will become CEO of Odyssey's London Market Division and report to Carl. Carl will report to Brian in his continuing capacity as CEO of Odyssey Group.

Prem Watsa, Chairman and CEO of Fairfax, commented: "Odyssey Group has thrived under Brian Young's leadership over the past 12 years. We are delighted with these promotions, which attest to the strength of talent at Odyssey Group and will position the company to continue to grow profitability over the long term. While Brian continues as CEO of Odyssey Group, we are thrilled

that he will begin to work more closely with Andy Barnard and share oversight responsibilities over all of our insurance and reinsurance operations. Since Andy first assumed this oversight role in 2011, Fairfax has profitably expanded almost fivefold. Our continued success will benefit from Brian's expertise."

Fairfax is a holding company which, through its subsidiaries, is primarily engaged in property and casualty insurance and reinsurance and the associated investment management.

https://www.fairfax.ca/press-releases/fairfax-financial-holdings-personnel-announcements-2023-02-21/

A review of key personnel changes in 2022

Feb 10, 2022 Executive Announcement

- Peter Clarke is appointed President of Fairfax

It took Fairfax two years to fill Paul Rivette's vacant position of President. Peter Clarke has been an excellent choice.

Fairfax Financial Holdings Limited (TSX: FFH and FFH.U) is pleased to announce that Peter Clarke has been appointed President of Fairfax.

Over the past 20 years, Peter has held the position of Vice President, Chief Operating Officer, Chief Risk Officer and Chief Actuary. He is a member of Fairfax's Executive and Investment Committees, and he will continue in his role as Chief Operating Officer.

Prem Watsa, Chairman and Chief Executive Officer of Fairfax, commented, "Peter has done an outstanding job for Fairfax in numerous roles over the past two decades, and fully deserves his appointment as our President. In many ways, Peter has been the President of Fairfax for some time now; it just took us a while to realize it. There is no one who represents Fairfax culture any better – smart, hard-working with no ego! I look forward to continuing to work very closely with Peter."

https://www.fairfax.ca/press-releases/fairfax-financial-holdings-limited-executive-announcement-2022-02-10/

A review of key personnel changes in 2020

Feb 13, 2020 Executive Announcement

- Paul Rivette retires as President of Fairfax

As President, Paul likely would have been a strong candidate to replace Prem Watsa of Fairfax. Paul is one of the few examples of a senior executive leaving Fairfax when he was likely still in his prime. So, him leaving the company was a surprise to outside observers.

The reason given was 'to retire in order to spend time with family.' Since leaving Fairfax, Paul has been quite active in the business community (Torstar and GreenFirst Forest Products being a couple of examples). So, the reason given seems a little strange.

I wonder if the issue was fit. Fairfax had transitioned their P/C insurance business to quality from about 2011 or so. It looks to me that Fairfax started transitioning its investment management business (and its many equity holdings) from deep value to more of a quality focus in about 2018. Perhaps Paul was more wired along the lines of 'deep value.' (This thesis kind of fits if you look at the types of companies Paul has been involved with since leaving Fairfax.)

Bottom line, Paul was an important part of Fairfax for many years. Among other things, he handled quarterly conference calls (and I always thought he did an exceptional job – he was logical, rational and very well spoken). Paul leaving left a big hole at Fairfax.

Fairfax Financial Holdings Limited ("Fairfax") (TSX: FFH and FFH.U) announces that after 17 years of dedicated service, Paul Rivett has decided to retire as President of Fairfax in order to spend full time with his family. Paul has agreed to continue as the Chair of certain Fairfax investees, including Fairfax Africa and Recipe Unlimited.

Prem Watsa commented, "Paul told me recently that for family reasons, he wanted to retire as President of Fairfax. It was with great sadness that I accepted his decision. For 17 years, Paul has given his all and has been instrumental in our success over that time. I have had the pleasure of working very closely with Paul all those years and I will miss him greatly. He retires with our gratitude and best wishes to him, his wife and his children in his retirement. I and other Fairfax executive personnel will be assuming Paul's responsibilities."

Paul Rivett commented, "There is no better place to work than Fairfax. Working with Prem and the entire Fairfax family has been a joy, an honour and a privilege. It has been incredible participating in helping grow the company over the years, working with such talented people, and assisting other organizations and individuals along the way. I am so grateful for my time at Fairfax, and I look forward to watching the exciting future of the organization continue to unfold."

https://www.fairfax.ca/press-releases/fairfax-financial-holdings-limited-executive-announcement-2020-10-13/

Chapter 11: Comparing Fairfax to P/C Insurance Peers

In this chapter we explore the P/C insurance industry. Improving our understanding of the industry in general will also improve our understanding of Fairfax.

Overview of the posts in this chapter:

The Davis Double Play – How to Build Wealth Investing in Insurance Stocks

- The Davis family has been building enormous wealth over three generations from investing in insurance stocks. Does it still work?

Warren Buffett and Berkshire Hathaway

- Warren Buffett is the GOAT. P/C insurance was the core engine that drove his phenomenal performance in the 1980's and 1990's.

Comparing Berkshire Hathaway and Fairfax

- Yes, there are many important similarities. There are also many important differences.

The P/C insurance model: Why isn't everyone doing it like FFH/BRK/MKL?

- If FFH/BRK/MKL's model is so much better, why aren't all P/C insurance companies following it?

Markel – Succession planning and family control – a cautionary tale

- What is going on at Markel today? Is the loss of family control the underlying problem?

The Davis Double Play – How to Build Long Term Wealth from Investing in Insurance Stocks

December 11, 2024

> "History never repeats itself, but it does often rhyme." *Mark Twain*

Is it possible to learn from history to become a better investor?

Yes. One of the reasons is because human nature/investor psychology does not change. But there are other reasons too. By studying the great investors of the past, we can learn what they did to be successful. In turn, this can help us to better understand what is going on in financial markets today. And this can sometimes provide an important edge for an inquisitive and open-minded investor.

Shelley Cullom Davis (1909 - 1994)

Shelby Cullom Davis was one of the most successful investors of his generation. John Rothchild captured his accomplishments (and those of his son, Shelby M. C. Davis and grandsons, Chris and Andrew Davis) in "The Davis Dynasty: Fifty Years of Sucessful Investing on Wall Street".

In this post we are only going to profile the father, and we will refer to him as Shelby Davis. Of interest, his grandson - Chris Davis - sits on the board of Berkshire Hathaway today. The book is a great read for investors who like financial history and are also interested in the P/C insurance industry.

What did Shelby Davis accomplish?

Starting out in 1947 (at age 38), Davis turned $50,000 into $900 million by 1994 (when he died, at age 85). Over 47 years he achieved a CAGR of 23% per year. The annual rate of return is exceptional. The timeframe he achieved that rate of return is otherworldly. Yes, that performance makes Shelby Davis one of the GOAT's.

Adjusted for inflation, $900 million in 1994 is equal to $1.9 billion today.

Ok, he got really rich.

So what?

Three things really stand out with how Davis built his fortune:

1. Investing in stocks - Davis is one of the rare individuals who built great wealth solely from investing in stocks.
2. Throughout his lifetime, he invested primarily in one sector - insurance stocks (P/C and life).

3. Leverage - Davis was a heavy user of leverage. Often 100%. Interesting that it never blew him up (especially in the 1969-1973 bear market).

This guy got filthy rich investing in insurance stocks? Ok. This guy is starting to sound interesting.

Investing framework

Before we start exploring the insurance angle it should be noted that Davis was a disciple of Ben Graham:

> "In 1947 Davis was elected president of Graham's stock analysts' organization." *TDD - Page 81*

Circle of competence

Prior to becoming a full-time investor, Davis was deputy superintendent of the New York state insurance department. Even though it was a relatively small industry, when he became a full-time investor in 1947, Davis decided to focus on insurance. Over the years he became an expert in both life and P/C insurance companies.

> "Davis was already famous in the life and casualty circles. Insiders began calling him 'the dean of American insurance,' though he'd never worked for an insurer." *TDD - Page 99*

Over the years, Davis built up an incredible edge over other investors with his deep understanding of the insurance industry.

Expanding the circle of competence

Along with John Templeton and a few others, in the 1960's Davis was a pioneer in investing in Japan and other international markets. Unsurprisingly, his focus when investing internationally was insurance companies (life and P/C).

Davis expanded his circle of competence not by looking to invest in other industries. Instead he expanded his circle of competence by looking to invest internationally, primarily in Japan. This is what led him to many outstanding investments, including AIG.

What did Davis like so much about P/C insurance stocks?

In his book, Rothchild explained why Davis was so attracted to insurance stocks as investments:

> "Insurance companies enjoyed some terrific advantages as compared to manufacturers.
>
> - Insurers offered a product that never went out of style.
> - They profited from investing their customers' money.
> - They didn't require expensive factories or research labs.

- They didn't pollute.
- They were recession-resistant.
- During hard times consumers delayed expensive purchases (houses, cars, appliances, and so on), but they couldn't afford to let their home, auto and life insurance policies lapse.

Because interest rates tend to fall in hard times insurance companies bond portfolios became more valuable."

"These factors liberated insurance earnings from the normal business cycle, and made them generally recession-proof. Meanwhile, the income from bond-heavy portfolios, continued to rise."

TDD - Page 96

Davis especially liked the float - a liability that was really an asset - that was hidden on the balance sheet of insurance companies. He believed a growing float combined with the power of compounding would eventually make the company a big winner for long term investors.

And guess what?

Nothing has changed. All the factors that Davis saw and liked about insurance stocks 75 years ago still apply just as much today.

How did Davis decide which insurance stocks to own?

Davis used three criteria to evaluate insurance companies:

1. Was company profitable/earning money?
    - Was the company a good underwriter?
2. How was the investment portfolio invested?
    - Was the investment portfolio invested in a rational manner?
3. How good was management?
    - The management piece was especially important for Davis.
    - Davis made it a priority to meet with management - something that was unusual at the time. His objective was to separate the 'bluffers' from the 'doers'.

"You can always learn accounting on the side," he told his son, "but you've got to study history. **History gives you a broad perspective and teaches that exceptional people can make a difference.**" *TDD - Page 99*

Using these three criteria - earnings, fundamentals, management - provided him with a solid understanding of the companies he invested in.

Guess what?

Nothing has changed. The basic methodology Davis used to evaluate insurance stocks 75 years ago still applies just as much today.

Picking the right industry was important. And picking the right company was also important. But Davis did one more thing. And this 'thing' is what allowed him to deliver such spectacular returns.

Patience

Davis never sold his winners. He let them compound undisturbed for decades. As a result, he was rewarded handsomely for his patience - his winners became massive winners.

What allowed him to ride out all the volatility?

It was what we reviewed earlier - he deeply understood the companies he was invested in. This knowledge allowed him to ride out volatility that naturally came with owning equities. It allowed him to think like and be a long term investor.

"The Davis double play"

When looking at individual companies, Davis was looking for a particular set-up. Because it could be especially lucrative for an investor.

1. Own the best insurance companies - that should result in modest (or better) growth in the business over time.
2. Buy them when they trade at a low multiple (P/BV, PE).

This is a great set-up for an investor, because it usually results in two things happening over time:

- Growth in earnings.
- Followed by multiple expansion - when Mr. Market starts to look more favourably on a company.

And as any investor knows, this combination can yield spectacular results. **Especially if it is allowed to play out undisturbed for decades**.

> "As the company's earnings advanced, giving the stock an initial boost, investors put a higher price tag on the earnings, giving the stock a second boost." *TDD - Page 95/96*

When this played out with an investment, Shelby called it 'the Davis double play.'

Summary

Exploiting this set-up over decades with investments in companies like AIG, Berkshire Hathaway and Japanese insurance stocks, is what enabled Davis to achieve such spectacular returns over his career as an investor.

Let's bring this post from the past and into the present.

Is P/C insurance still a good sector to invest in today?

Warren Buffett has been selling some of his stock holdings in recent years, like Bank of America and more recently Apple.

Has he been buying anything?

Yes, Buffett has been buying P/C insurance companies. In 2022, he bought Alleghany. And in 2024, he made Chubb a top 10 equity holding for Berkshire Hathaway.

Buffett bought his first P/C insurance stock, National Indemnity, in 1967. Fifty-seven years later he is still buying P/C insurance companies/stocks. Obviously, he continues to like the current set-up - the valuation and long-term prospects of the well managed P/C insurance stocks.

Fairfax Financial

Fairfax is in the process of delivering 'the Davis double play' for its investors. The stock has been on a tear over the past 4 years. However, much of the increase in the stock price so far has been driven by spiking earnings. The multiple part of 'the Davis double play' has just started happening for Fairfax. As earnings continues to grow, Mr Market will look at the company even more favourably. As investor expectations/sentiment towards the company continues to improve we should see multiple expansion in the coming years.

Today, Fairfax trades at a low valuation. Especially when you consider the quality of its management team (best in class).

- P/BV = 1.3. Exceptionally low for a company that is delivering a consistent ROE of > 15%.
- PE = 8.8. Exceptionally low. Fairfax is not over-earning.

To quote Peter Lynch, Fairfax is priced for 'mediocrity'.

None of this includes excess of FV over CV for Fairfax's associate and consolidated equity holdings. This was $1.9 billion at Sept 30, 2023, or $86/share (pre-tax). This means Fairfax is even cheaper than it looks.

Fairfax - Current Valuation (US$)	Dec 31, 2024	Dec 31, 2023
Book Value - est Dec 31, 2024	$1,085	$940
P/BV	1.30	
ROE (average equity)	16%	
Dividend per share & yield	$15	1.4%
Share Price - Dec 10, 2024	$1,408	
2024E EPS - my current estimate	$160	
2024E P/E	8.8	

Exceptional people can make a difference

This might be my key learning from reading The Davis Dynasty: invest alongside outstanding people and then be patient - and you can reap amazing rewards, sometimes lasting for decades.

> "You can always learn accounting on the side," he (Shelby Davis) told his son, "but you've got to study history. **History gives you a broad perspective and teaches that exceptional people can make a difference.**" TDD - Page 99

The big disconnect today with the broader investment community and their 'understanding' of Fairfax is likely perceptions regarding of the quality of the management team - it is much better than most investors think. Fairfax is loaded with high-quality people:

- Prem Watsa is an exceptional CEO.
- Lead by Peter Clark and Jen Allen, the senior team at Fairfax is very good.
- Lead by Andy Barnard, Fairfax has built one of the best P/C insurance platforms/businesses in the world.
- Lead by Wade Burton, Fairfax has built one of the great investment management platforms/businesses in the P/C insurance industry.
- Fairfax has been slowly building out a collection of high quality equity holdings that are lead/managed by very good CEO's/management teams. To name just a few:
    - Fokion Karavias at Eurobank. David Sokol/Bing Chen at Poseidon. Hari Marar at Bangalore International Airport. Kamesh Goyal, founder of Digit Insurance.

Fairfax's current set-up: Growing top line/earnings + Low multiple + Exceptional management/people.

The exceptional management/people 'reason' is by far the most important of the three listed above. But it gets the least attention from the investment community.

With Fairfax today, an investor is able to buy a best-in-class management team at the lowest valuation (compared to peers). This provides a large margin of safety. And solid upside, just from earnings. And significant upside if we see multiple expansion.

Even with the spike in the share price over the past 4 years, Fairfax still looks like a compelling opportunity for patient, long term investors. I think Shelby Davis would agree.

What did Peter Lynch have to say?

Peter Lynch wrote the foreword for The Davis Dynasty. Below is a quote from him that is chocked full of wisdom:

1. Slow-growth industries can produce great growth companies.

2. Exceptional leaders can deliver outstanding results for investors - sometimes lasting for decades.

> "I differed from the Davises, but in one important area we had something in common. Some of my most rewarding investments came from slow-growth industries where expectations were low and profits lackluster. By looking for the most inspired competitors in uninspiring lines of work, I often found great growth companies (Toys "R" Us, La Quinta Motor Inns, and Taco Bell, for example) priced for mediocrity."
>
> "Similarly, in the insurance arena and later in the banking arena, Davis and his son bought shares in the best and brightest competitors for much less than they'd pay, say, for the best and the brightest in the hottest high-tech industries, which are always highly competitive and subject to sudden reversal of fortune."
>
> "You don't hear too many college kids say it's their dream to enter the property-casualty business, but while insurance may be unappealing to most, it has attracted a few outstanding operators like Hank Greenberg, who turned American International Group into an on-going bonanza for shareholders since the 1970s. Davis' positions in AIG, and a dozen other companies with exceptional leaders, accounted for the bulk of his gains."

Warren Buffett is the GOAT. Who is the next Warren Buffett?

March 4, 2025

Warren Buffett just released his annual letter to shareholders. So, it is timely to do a post on the artist himself and the masterpiece he has been painting, called Berkshire Hathaway.

Warren Buffett is the GOAT.

Over the past 59 years (1965-2024), the per-share market value of Berkshire Hathaway's stock has increased at a CAGR of 19.9%. Over the same time frame, the S&P500 with dividends has increased at a CAGR of 10.4%.

The CAGR of 19.9% is impressive. But what is even more impressive is how long it has been sustained - 59 years. Yes, that performance makes Buffett the GOAT.

But there is more to the Buffett story than just the return he has delivered.

- He is very shareholder friendly. This gets glossed over at times (because he does so many things exceptionally well). But it is one of the things that separates Buffett from many other great capital allocators.

- He is also an educator with top-notch communication skills. Buffett's annual letters have become must reads for investors. And tens of thousands make the pilgrimage to Omaha each year to hear Warren Buffett speak at Berkshire Hathaway's annual meeting.
- He wanted small/retail investors to succeed. Many small/retail investors have made vast fortunes from their investment in Berkshire Hathaway over the past 6 decades. They did not have to pay nose-bleed high private equity fees (like a 2% annual management fee + 20% performance fee) to invest alongside Buffett.

As a result, Buffett is both adored and worshipped by Berkshire Hathaway shareholders. And rightly so. This is very rare for someone who made their fortune running a business and investing in financial markets.

Warren Buffett is also a unicorn - he is one of a kind.

Buffett is one of a kind - his intellectual/psychological makeup. But that was not enough. He was also in the right place at right time. Born in the US. Born a male. Taught early in life (before his habits were formed) directly by the master himself, Ben Graham. Discovered his lifelong business partner, Charlie Munger, in 1959 - who taught him other important lessons, like the importance of buying quality. Buffett is a unicorn.

What Buffett has accomplished for small/retail investors will never be repeated:

- What he did - CAGR of 19.9% for 59 years.
- How he did it - via Berkshire Hathaway - a publicly traded company (which allowed small/retail investors to participate and fully benefit from his amazing skills).

Warren Buffett the god?

Yes, Warren Buffett has assumed god-like status. His writings are considered sacred texts. His methods are now taken as gospel.

This can be problematic (we will come back to this later).

Where are we at today?

Warren Buffett is 94 years old. And Berkshire Hathaway has morphed over the past 2 decades into a massive conglomerate. Its core growth engine, P/C insurance, is now just one of many big businesses that the company has.

Berkshire Hathaway's massive size and Buffett's advanced age has important ramifications for Berkshire Hathaway shareholders - future returns will be lower than past returns. Buffett has been warning about this for decades.

If we look at Berkshire Hathaway's returns from the past 59 years and separate them into decades we can see the slowdown. Three periods become apparent:

- First 29 years (1965 to 1994) CAGR = 29.2%
- Next 10 years (1994 to 2004) CAGR = 15.7%
- Last 20 years (2004 to 2024) CAGR = 10.8%

Bottom line, as an investment, Berkshire Hathaway's best years are behind it. Moving forward, Berkshire Hathaway's stock will likely generate returns that are similar to those of the S&P500 with dividends. This is not a bad outcome - most professional money managers underperform the S&P500 (when their returns are measured over a 10 year time horizon).

Berkshire Hathaway			
	BRK-A		
	YE Value	10-Year CAGR	
1965	$12		
1974	$40	1965-1974*	14.3%
1984	$1,275	1974-1984	41.4%
1994	$20,400	1984-1994	32.0%
2004	$87,900	1994-2004	15.7%
2014	$226,000	2004-2014	9.9%
2024	$680,920	2014-2024	11.7%
1965-1974 * = 9-year CAGR			

This naturally leads to the following question:

Who is the next Warren Buffett?

Ok, you probably felt your pulse quicken when you read that question.

This is, of course, the proverbial million-dollar question. We are all on the lookout for the next 'Warren Buffett.' For investors, it is a bit like the endless search for the mythical holy grail. That person just HAS to be out there.

But there is a problem. As we already pointed out, Buffett is a unicorn.

What does this mean?

It means it's not possible to find another Warren Buffett.

There I said it.

Sorry if that felt a little like showering in cold water. But it is what it is. And an investor needs to live in the real world.

OK. So, does that mean investors should give up with their search? No.

What should we do when we hit a wall?

One solution is to reframe the question.

Maybe investors are looking for the wrong thing. Instead of looking for the next Warren Buffett (impossible), why don't we look for something that is possible…

What is that?

Which company could be the next Berkshire Hathaway?

To answer this question, let's review what Berkshire Hathaway's secret sauce is/was:

- Run by founder - skilled at attracting and retaining top talent.
- Family/founder controlled - allowed for long term focus in running the business.
- Core engine is P/C insurance - benefited from growing, low-cost float that could be invested.
- Decentralized operations - attracts entrepreneurs.
- Centralized capital allocation - among other things, invests in equities.
- Strong company culture - built over decades and championed by founder.
- Company is run for benefit of shareholders - focus is on growing per share value for shareholders over the long run.
- Good communicator - primarily via letter in annual report; Q&A at annual meeting.

What about return expectations?

We are going to keep this reasonable. **We are looking for a company that might be able to deliver a return to shareholders of 15% per year over the next 10 years.**

Does a company like this exist?

Before we can answer that question, we need to discuss with one more issue.

The curse of Warren Buffett.

When investors look for the next Berkshire Hathaway, they usually do so through the lens of Warren Buffett. So, when they evaluate other companies - and the decisions made by their management teams - they usually ask the following question: "Is that what Warren Buffett would have done?"

Do you see the problem with this approach?

Yes, they are really looking for a clone of Warren Buffett. And as we discussed earlier, that does not exist.

And I get it - investors can't help themselves. They love and worship Warren Buffett so much they can't let go - they don't want to let go. In this regard, Buffett has become a curse for many investors. It is stopping them from being rational and dispassionate when they look at other companies.

Is it possible to find another Warren Buffett? No. Is it possible to find another Berkshire Hathaway? Yes. Perhaps the key is the P/C insurance model.

The P/C insurance model

Buffett has said repeatedly that the core engine that propelled the growth of Berkshire Hathaway over the decades was its P/C insurance business. The really interesting thing is other investors/companies have done something similar.

Other investors/companies have built great fortunes over many decades exploiting the P/C insurance model:

- Shelby Davis - CAGR of 23% over 47 years
- Henry Singleton/Teledyne - CAGR of 20.4% over 27 years.
- Larry Tisch/Loews
- Warren Buffett/Berkshire Hathaway - CAGR of 19.9% over 59 years.

But here is the really interesting thing: they all did it in completely different ways.

So, investors don't need to find the next Warren Buffett. Instead, they need to find the next investor/company who is poised to exploit the P/C insurance model to drive above average returns for shareholders in the coming years. This approach offers investors their best chance of finding the next 'Berkshire Hathaway type of investment.'

_____

Which company looks poised to best exploit the P/C insurance model in the coming years?

I think it might be Fairfax Financial.

Truth be told, Fairfax has been successfully exploiting the P/C insurance model for decades. Over the past 39 years its share price (plus dividends) has delivered a CAGR of 19% in US$ terms (it was 18.3% at the end of 2023 - from Fairfax's 2024 AGM presentation). That is exceptional long-term performance.

But more relevant to our post today, Fairfax is still a small company. It has been aggressively expanding its P/C insurance business over the past decade (growing that core engine). And it is still run by its founder.

Over the past 5 years, Fairfax has dramatically outperformed its P/C insurance peers. Fairfax has delivered a total return (including dividends) to shareholders of 25.2% for each of the past 5 years. And even after that performance, it is trading today at the lowest valuation (compared to peers).

Most importantly, Fairfax's P/C insurance business has never been better positioned. Its investment management business has never been better positioned. Over the past 5 years, the execution from its senior management team has been best-in-class. As a result, the company has never been better positioned in its history than it is today.

Today, Fairfax is providing investors with the next iteration of how to successfully exploit the P/C insurance model - and drive enormous per share value for shareholders over the long term. Lots of investors just don't see it… yet. Likely because they are looking for the wrong thing.

P/C Insurance Companies - Peer Comparison				
	5-Year CAGR			
		Total	Feb 19, 2025	
	BVPS	Return	P/BV	P/E
Fairfax	16.9%	25.2%	1.37	9.1
WR Berkley	8.5%	15.1%	2.75	13.9
Intact Fin (C$)	11.4%	15.0%	3.02	22.6
Berkshire B	11.6%	14.8%	1.67	11.7
Travelers	3.8%	13.7%	1.97	11.3
Chubb	5.6%	13.4%	1.67	11.7
Markel	9.7%	8.6%	1.46	9.3
5-Year CAGR: Dec 31, 2019 to Dec 31, 2024				
Total Return = Share Price + Dividends (incl special)				
P/BV = Share price at Feb 19, 2025 and BV at Dec 31, 2024				
P/E = Share Price Feb 19, 2025 and 2024 earnings.				

Comparing Berkshire Hathaway and Fairfax Financial

March 4, 2025

Yes, Fairfax and Berkshire Hathaway are similar in many important ways. However, both companies also have important differences. We review both their similarities and differences in this post.

How Berkshire Hathaway and Fairfax are similar:

1.) Ownership/Control:

- Founder is the controlling shareholder - allows business to be run with a long-term focus.
- Insurance - Critical to being able to optimize the management of the insurance cycle.
- Investments - Expands opportunity set to higher return opportunities, like equities.
- Founders have modest pay packages. The vast majority of their net worth is held in the company. The result is strong alignment of their interests with those of shareholders.

2.) Business structure:

- Small head office – handles capital allocation and succession planning.
- Decentralized operating structure:
- Insurance businesses are run by their presidents/CEO's.
- Investments / equity holdings are run by their CEO's.

3.) Growth engine: P/C insurance business - generating low cost and growing amounts of float.

4.) Investing framework

- Value investors at their core – Ben Graham was the foundational teacher.

5.) Strong culture - carefully crafted and shaped over decades; championed/role modelled by the founder/CEO.

6.) Communication with shareholders: Inform and teach shareholders about the business.

- Write long letters for shareholders in each annual report.
- Presentation and Q&A at the AGM.

7.) Shareholder focus: Focus is on building per share value for shareholders over the long term.

8.) Exceptional long-term track record: Built an enormous amount of wealth for shareholders over decades:

- Berkshire Hathaway = 19.9% per year for 59 years
- Fairfax = 19% per year for 39 years (US$ including dividends)

<u>How Berkshire Hathaway and Fairfax are different</u>:

1.) Size of company

- Berkshire Hathaway is a giant-sized company.
- Fairfax is a much smaller company. Today, this makes it much easier for Fairfax:
    - To grow its insurance business (and float).
    - When making investments. Fairfax has a much larger opportunity set (in both public and private markets). And a good decision will more easily move the performance needle at Fairfax.

2.) Importance of P/C insurance

- Berkshire Hathaway has morphed into a huge conglomerate over the past 2 decades; today, P/C insurance is one of a couple of large business units.
- Fairfax is still primarily a P/C insurance company; as a result, its business is much more leveraged to the benefits of float.

3.) Capital allocation

- Berkshire Hathaway and Fairfax are very different animals when it comes to how they do capital allocation (what tools they use and how they use them). Berkshire Hathaway is much more constrained in its approach.

- Fairfax is open to using all tools in the capital allocation toolbox (like Henry Singleton was when he ran Teledyne). Fairfax can also be very creative with how it uses the tools. Below we highlight some of the differences in their approach.

Sources of capital

4.) Use of equity

- Berkshire Hathaway is loath to issue new BRK shares and, until recent years, was not a fan of buying back its stock.
- Fairfax has always been very active with its equity, issuing FFH shares when its stock was trading at a premium (using the proceeds to buy P/C insurers who were trading at a discount) and then - years later - aggressively buying back FFH shares when its stock was trading at a discount.

5.) Use of debt

- Berkshire Hathaway uses a very modest amount of debt (usually at the subsidiary level).
- Fairfax is much more comfortable using debt as another form of leverage (in addition to float) to boost earnings and returns for shareholders.

6.) Use of minority partners

- Berkshire Hathaway does not use minority partners as a source of cash.
- Minority partners have been a significant source of short term capital for Fairfax over the years. Capital is sourced when opportunities arise (two recent examples: Allied World acquisition in 2017 and buyback of 2 million Fairfax shares in 2021). Minority partners are bought out when Fairfax is flush with cash (like we have been seeing in recent years).

7.) Holding period

- When it comes to investments, Berkshire Hathaway's style can be described as 'buy and hold forever.'
- Fairfax is much more opportunistic when it comes to holding period. Selling is an important source of cash and it has delivered significant value to Fairfax and its shareholders over the years.
    - Insurance: Taking advantage of the mania in cats and dogs, In 2022, Fairfax sold its pet insurance business and realized a $1 billion gain after tax. Most people did not even know that Fairfax owned this business (it was very small).
    - Investments: In 2022, Fairfax sold Resolute Forest Products at the peak of the lumber cycle at a premium price. In 2024, Stelco was sold at a premium price to Cleveland-Cliffs.

Investment framework

8.) Kind of value investor: After Ben Graham, the big influences on Buffett and Watsa's/Fairfax's investing styles have been quite different.

- Warren Buffett was influenced by Charlie Munger and Phil Fisher - This pushed Buffett to 'quality at a fair price.'
- Prem Watsa/Fairfax was influenced by John Templeton and Peter Cundill (others?) - Watsa/Fairfax has remained more of a traditional value investor (buy low and sell high). It does appear in recent years as though Fairfax has been moving towards 'quality at a fair price' (putting more of a premium on management, balance sheet strength and earnings profile).

9.) Geography

- Berkshire Hathaway has been focussed primarily on the US with its P/C insurance business and its investment businesses.
- Fairfax has been aggressively growing out its international P/C insurance footprint. And it has significant investments outside of the US (Canada, India, Greece).

When Digit (P/C insurance start-up in India) was looking for a partner in 2016-17 they went to Berkshire Hathaway first – who said no. They then went to Fairfax, who said yes. And Berkshire's loss has become Fairfax's gain. Fairfax's $154 million investment in Digit is now worth more than $2 billion. More importantly, today Fairfax owns a control position in a large, fast-growing P/C insurance companies in India - who is expected to have the fastest growing economy in the world over the next decade.

10.) Resource industries/commodities

- Fairfax appears more comfortable investing in these sectors than Berkshire Hathaway - Fairfax will invest where they find value. More than 10% of Fairfax's equity portfolio today is invested in a diverse group of resource/commodity plays – oil and gas, gold, copper, royalties.

Other items

11.) Dividend

- Berkshire has never paid a dividend.
- Fairfax currently pays a small dividend of US$15/share.

12.) Stage of Life Cycle

- At Berkshire Hathaway, today Buffett appears focused primarily on preservation of capital – listening to him talk about his responsibilities to long term shareholders, he sometimes sounds like he is managing a trust.
- Fairfax still appears to be primarily focused on driving per share returns for shareholders over the long term.

Summary

From a structural perspective, Berkshire Hathaway and Fairfax have many similarities. However, when it comes to execution, they both have many meaningful differences. Both companies have

outstanding long term track records - they are both very good at what they do. Both companies should be celebrated for their differences (not derided). Importantly for today, Fairfax is a much younger and smaller company than Berkshire Hathaway.

Fairfax looks like an athlete who has just entered their prime. Over the past 5 years, Fairfax's performance (appreciation of share price) has been best-in-class among P/C insurance companies - and it hasn't been close. It appears Berkshire Hathaway has handed off the outperformance baton to Fairfax who is now running with it - most investors just haven't recognized it yet.

Pet peeve

Does this mean we should start calling Prem Watsa the Warren Buffett of the north (again)?

No. This was a stupid thing to say 20 or 30 years ago. It is even more stupid today. IMHO, it is a lazy and inaccurate comparison to try to make (although it will probably get lots of clicks). Buffett is the GOAT. Trying to compare anyone to the GOAT is never going to go well. To do so does a great disservice to Watsa. Both men are great in their own right - and each should be celebrated for what each has delivered/accomplished over many decades for small/retail investors (like me and many others on this wonderful board).

What about Markel?

Markel is a fine company. It appears Markel has decided they are going to try and clone Warren Buffett. As I have said above, I don't think that is possible. In recent years, Markel appears to be having its challenges executing that strategy/model - its business has been experiencing some issues and as a result its share price has badly lagged P/C insurance peers over the past 5 years. Recently, they have called in 'external consultants and advisors' to help them figure things out - hardly the sign of a well-run company.

Comparing Markel to Fairfax today, I think Fairfax is better positioned in both its core P/C insurance and its investment management businesses. But most importantly, over the past 5 years, Fairfax's senior management team has been executing much better than the senior team at Markel (capital allocation, succession planning, P/C insurance, investments). As a result, my guess is Fairfax's business results and share price will continue to outperform those of Markel in the coming years.

What is Berkshire Hathaway's biggest problem today? What are the lessons for Fairfax?

October 28, 2025

> 'Only a fool learns from his own mistakes. The wise man learns from the mistakes of others.'
>
> *Otto von Bismarck*

Berkshire Hathaway served as the inspiration for Fairfax's creation way back in 1985 (when Hamblin Watsa purchased Markel's insurance operations in Canada). Today, Berkshire Hathaway is at a much different life stage as a company than Fairfax. Being a much younger and smaller company, Fairfax has the opportunity to learn a great deal more from Berkshire Hathaway.

Berkshire Hathaway is almost 60 years old as a company (in its present form). If Buffett could do it all over again, would he do anything differently? Of course he would. But let's try and focus our discussion a little more.

Today, we are going to ask a simple question:

What is Berkshire Hathaway's biggest problem today?

Berkshire Hathaway's biggest problem today is its size - it has grown into a massive company. Berkshire Hathaway has a market cap of over $1 trillion, making it the 9th largest publicly traded company in the US. I don't think this is a controversial thing to say. And that is because Warren Buffett has been warning investors about this problem for decades. It has been getting worse every year. And it will continue to get worse every year moving forward.

Why is size a problem?

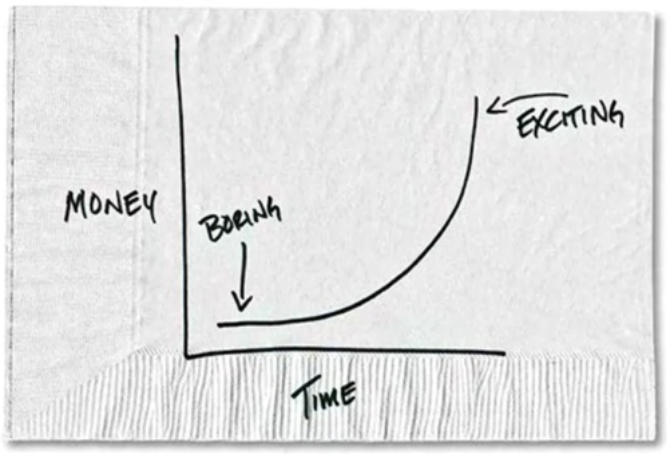
Berkshire Hathaway generates an enormous amount of excess capital every year. But because of its size, it now has a very limited opportunity set. This makes reinvestment of its excess capital very difficult. This lowers the rate of return the company is able to earn. As a result, the growing size of Berkshire Hathaway has been slowing the CAGR of the stock for decades. From a well above average rate of 29.2% for the first 30 years (1965 to 1994). To an above average rate of 15.7% for the next 10 years (1994 to 2004). To an average rate of 10.8% for the past 20 years (2004 to 2024). The rate of return being generated today is not a terrible thing. But clearly it is not what it once was.

	Berkshire Hathaway - The Evolution of the Company			
			Stock	
	Three Era's		CAGR	Performance
1	First 29 years	1965 to 1994	29.2%	Well above average
2	Next 10 years	1994 to 2004	15.7%	Above average
3	Last 20 years	2004 to 2024	10.8%	Average

What is the root cause of the problem?

The root cause of the problem is the power of compounding and time. As any investor knows (especially Buffett) compounding is an amazing and unstoppable force. Especially when given enough time. The result is magic.

Decades ago, Berkshire Hathaway's share price got to the exciting part of compounding curve (the hockey stick part).



Source of napkin diagram: Carl Richards

Ok… Yes, Buffett is the GOAT.

Are we done? No, not so fast.

Let's ask another question:

Was there anything Buffett could have done to stop the problem from happening?

No, I don't think there was anything Buffett could have done to **stop** Berkshire Hathaway from becoming such a large company.

Ok. Dead end. Let's reframe the question:

Was there anything Buffett could have done to slow the problem from happening?

Yes, I think there likely were some things Buffett could have done to **slow** Berkshire Hathaway from becoming such a large company.

Like what?

I can think of two things:

1. Stock buybacks
2. Buy and hold forever (steep aversion to selling anything)

Both of these are big topics. Today, I am going to focus only on buybacks.

How does buying back stock shrink the size of a company?

Share buybacks are paid for using cash. This shrinks both assets and shareholders' equity. Lower shareholders equity shrinks the size of the company.

Stock Buybacks

One of the reason's Berkshire Hathaway got so big was Buffett refused to do any stock buybacks for many years. Even during extended periods when the company's stock was cheap.

Yes, Buffett had a good reason for not doing buybacks - he could usually earn a better return by allocating excess capital in other ways. **This was clearly the right short term decision. And, with hindsight, arguably the wrong long term decision for the company and shareholders.**

Quality at a fair price

> "A great business at a fair price is superior to a fair business at a great price." *Charlie Munger*

Price/valuation might have been part of the problem. Perhaps Buffett was simply being too cheap - only wanting to buy back Berkshire Hathaway stock when it was wicked cheap (not just cheap). This would have severely restricted the opportunity for Buffett to buy back stock.

This also makes no sense. Munger (supposedly) taught Buffett that it was preferable to buy "a great business at a fair price." Why would this logic not apply to Berkshire Hathaway itself?

Berkshire Hathaway was not just a great business… **it was the best business in the world.** And at many times in the past its shares were available at a fair price.

A double standard?

What is puzzling is Buffett loves it when companies he owns do big share buybacks (when their stock is trading at a low valuation). Apple is the best recent example. Buffett has been a big cheerleader of Apple's buybacks for years. (Interestingly, massive buybacks have helped slow Apple's own 'too big' size problem.) When it came to buybacks, Buffett seemed to have two standards - one for Berkshire Hathaway and another for the publicly traded stocks it owned.

Buffett finally capitulates

In 2011, Buffett finally relented and issued an official buyback policy for Berkshire Hathaway. But he set a buyback valuation threshold of 1.2 x BV. Really? That cheap? The result was Berkshire Hathaway repurchased few shares in the subsequent years.

In 2018, Buffett ended the buyback valuation threshold of 1.2 x BV and gave management more discretion with when doing buybacks. As a result, the pace of buybacks increased quite a bit. But Buffett was decades too late - Berkshire Hathaway had already become a monster in size. The window of opportunity to use buybacks as a way to keep Berkshire Hathaway small was long gone.

The Berkshire Hathaway multiverse

Now imagine an alternate universe - imagine a past where Buffett was more open minded to share buybacks - actually did them in size at the appropriate times. Perhaps up to valuation threshold of 1.5 x BV - hardly a stretch for a company of Berkshire Hathaway's quality.

Would that have perhaps lowered past returns a little for investors?

Probably a little. **But it would have kept the size of the company smaller, perhaps much smaller. And this would have likely allowed the company to continue to compound at a much higher rate of return for a longer period of time - perhaps much longer.**

Summary

Buffett has known for decades that Berkshire Hathaway was becoming too large of a company. After all, if anyone understands the power of compounding and time it is Buffett.

I think it can be convincingly argued that Buffett did not do enough to manage that specific problem, especially 20 or even 30 years ago (when it was becoming apparent). Like being more open minded with stock buybacks (the concept and the price at which they made sense).

Is this perhaps an example of where Buffett was not thinking long term enough?

Yes, that question is a bit of a mind-bender. But it appears 'long term' to Buffett might have meant 'during his lifetime' (in terms of Berkshire Hathaway being an above average compounding machine). Of course, Berkshire Hathaway is a wonderful company. But it is no longer an above average compounding machine. And the risk for the company moving forward is it shifts from an 'average' to 'below average' rate of return for long term shareholders.

Is there a lesson here for Fairfax?

Yes, I think there is. An important one that is not on the radar today of long term investors.

Buybacks are good because of all the usual reasons:

- When done at favourable prices (i.e. below intrinsic value), they deliver significant value. They increase the ownership stake of long term shareholders.

- They are a high certainty capital allocation activity.
- They are a sign management is rational and working in the best interests of long term shareholders.

For compounding machines like Fairfax, we now have one more good reason to do buybacks. Especially when looking 10 or 20 years into the future.

- **By meaningfully shrinking the size of the company (with aggressive buybacks over a long period of time), it allows compounding to continue at above average rates of return for a much longer period of time - it extends the runway of a compounding machine.**

Another important lesson: Don't cheap out on the price you pay. As Charlie Munger taught investors, pay a fair price for a quality business - this will allow you to buy back many more shares than would otherwise be the case.

What has Fairfax been doing?

Fairfax has been aggressively buying back its stock since 2017. From 2017 to 2024, it has reduced effective shares outstanding by 6.1 million, or 21.9%, at an average cost of $637/share.

The shares were repurchased at a crazy low price. And a significant number of shares have been repurchased.

And if we include the FFH-total return swaps, Fairfax got exposure to 7.8 million of its shares, or 28.3%, at an average cost of $577/share. A very good news story is even better.

Fairfax - Common Stock Effectively Outstanding – 7-Yr Trend

Dec 31	m	Annual Change		Avg Price
2017	27.751	n/a	n/a	Per Share
2018	27.238	-0.513	-1.8%	$509
2019	26.831	-0.407	-1.5%	$464
2020	26.177	-0.655	-2.4%	$298
2021	23.866	-2.311	-8.8%	$490
2022	23.325	-0.540	-2.3%	$509
2023	23.003	-0.322	-1.4%	$764
2024	21.668	-1.335	-5.8%	$1,179
7-year Change		**-6.083**	**-21.9%**	**$637**

For Fun, Let's Add In The Total Return Swap Position	Shares 'Purchased'	Total Cost $ m	Avg Cost Per Share
Reduction in Eff Sh Outstanding	6.083	$3,872	$637
FFH - Total Return Swaps	1.760	$656	$373
Total Shares 'Purchased'	**7.843**	**$4,529**	**$577**
	28.3%		

In 2025, Fairfax has continued to buyback its shares. YTD (to September 30, 2025), my guess is they have taken out around 400,000 more shares. In August and September, shares were likely repurchased at around $1,700/share. We will get details when Fairfax reports Q3 results on November 6, 2025.

It appears Fairfax is comfortable paying 'a fair price for a great business.' This is another example of Fairfax moving up the quality ladder when deploying their excess capital.

Bottom line, it looks like Fairfax has gotten the memo - they appear to understand Berkshire Hathaway's size problem. And the management team at Fairfax appears to be doing something about it - in a pretty aggressive way.

With buybacks it looks like Fairfax is thinking long term - the benefits of the buybacks being done today will flow to shareholders for decades into the future.

This discussion leads us to another really important and related topic.

Is having a chronically low share price (valuation) a good or a bad thing for Fairfax?

Having a chronically low share price (valuation) has been a gift for Fairfax and its shareholders. It has allowed the company to buy back an enormous amount of stock over the past 7 years - to get exposure to 28.3% of its effective shares outstanding at a very low average price ($577/share). This was also a high certainty/low risk use of capital for Fairfax.

The interesting thing is aggressive share buybacks have not impaired the company's ability to grow its top line (the NPW of its P/C insurance business have increased in size by about 150% from 2017 to 2024). As a result, the per share value creation for long term Fairfax shareholders has been enormous.

Bottom line, a low share price - especially if it persists for years - is a big benefit for long term Fairfax shareholders. Remember this when you look at Fairfax's stock price each day.

The P/C Insurance Model: Why Isn't Everyone Doing It Like Fairfax, Berkshire Hathaway and Markel?

January 17, 2025

Fairfax Financial, Berkshire Hathaway and Markel have built an enormous amount of wealth for their shareholders over many decades.

They have taken the standard P/C insurance business model and 'tweaked' it in important ways:

- The business is run for the long term:
    - P/C insurance: focus is on delivering an underwriting profit (not top-line growth).
    - Capital allocation: a part of the investment portfolio (augmented by float) is invested in equities, which delivers a higher return (than a 100% bond allocation).
- The profits are then re-invested into the best opportunities (grow insurance – which grows float - and/or grow investments).
- This results in capital being compounded at high rates of return.
- Executed over many years - this results in exponential growth.

If the model used by Berkshire Hathaway, Fairfax and Markel is so good (leverage P/C insurance business model/float and invest in equities) why aren't more companies doing it?

It requires a gifted founder – a visionary. This person also has to have a control position in the company.

Why?

- It is exceptionally difficult to set up.
- It takes a long time to build to scale.
- And it requires a long-term focus (with both insurance and investment businesses).

There are also other reasons:

- P/C insurance is, relatively speaking, a small industry.
- P/C insurance is largely a commodity - it is a very competitive industry.
- It takes decades to build out/scale a P/C insurance company.
- Capital allocation (something other than bonds) is very difficult to do well over the long term.
- Volatility is a feature of the model (for both insurance and investment businesses), not a bug – volatility creates the opportunity to earn higher returns.

Does this sound like a business Wall Street would be interested in?

Wall Street thinks only in the very short term – and hates volatility.

If you are looking to get rich quick you would have to be an idiot to pick P/C insurance as your vehicle. As a result, only a few companies have been able to replicate Warren Buffett's very successful model. Fairfax is one of them.

What is Berkshire Hathaway's secret sauce?

Here is what Warren Buffett had to say in Berkshire Hathaway's 1985AR:

> "Charlie Munger, my partner in managing Berkshire, and I are reasonably optimistic about Berkshire's ability to earn returns superior to those earned by corporate America generally, and you will benefit from the company's retention of all earnings as long as those returns are forthcoming.
>
> **We have several things going for us**:
>
> **(1) we don't have to worry about quarterly or annual figures but, instead, can focus on whatever actions will maximize long-term value;**
> **(2) we can expand the business into any areas that make sense - our scope is not circumscribed by history, structure, or concept; and**
> **(3) we love our work.**
>
> All of these help. **Even so, we will also need a full measure of good fortune to average our hoped-for 15%** - far more good fortune than was required for our past 23.2%."

Markel – Succession planning and family control – a cautionary tale

January 28, 2025

I follow Fairfax very closely. Markel not so much. So, you have been warned. What is happening at Markel today looks like it might be important. My thoughts below are very top-line. And subject to change as we get more information / see how things play out. I am putting this post in the Fairfax thread because I also weave Fairfax and Berkshire Hathaway into the story.

Why should a Fairfax shareholder care about what is going on at Markel?

There are two broad reasons for a Fairfax shareholder to pay attention to what is happening at Markel.

The first is for practical reasons.

- Peers - It is important to follow other P/C insurance companies. This can provide important insights into what is going on in the industry in general (commentary on hard market, etc).
- Berkshire Hathaway / Markel - These two companies have business models that are closer to Fairfax's than other P/C insurance companies. Among other things, they invest a large part of their investment portfolio in equities / control positions in other non-insurance companies. These two companies can provide an additional layer of insight.

The second is for sentimental reasons.

- The history of Fairfax is closely intertwined with that of Markel, especially in the very beginning and first 15 years.

Let's explore the second reason first. This will be short.

Sentimental

Of interest, Markel was responsible for Fairfax's entry into the P/C insurance business 40 years ago. Fairfax actually started out as Hamblin Watsa, an investment counselling company, which was established in 1984. Prem teamed up with Tony Hamblin, who was his boss when he was working in the investments department at Confederation Life.

In 1985, Hamblin Watsa (via The Sixty Two Investment Company), made their first P/C insurance purchase - a control stake in Markel Financial (Canada). Steven Markel (from Richmond, Virginia) was instrumental in getting this deal done and he agreed to help run the company until a new president could be found. The name change from Markel Financial (Canada) to Fairfax Financial happened in 1987. In 1990, the two businesses separated (Markel US and Fairfax). Until 1998, each (Steven Markel and Prem Watsa) served on the other's board.

"I consider him (Steve Markel) one of the founders of Fairfax." *Prem Watsa*

Source: Fair and Friendly - The First 25 Years of Fairfax Financial

And as they say, the rest is history. There is much more to the Markel/Fairfax relationship/story. That would make for a fun and interesting future post.

Let's get back to our topic for today.

Practical

Charlie Munger - invert

"Be consistently not stupid, instead of trying to be very intelligent." *Charlie Munger*

Inversion involves looking at a problem or decision from the opposite point of view so, for example, rather than focusing on achieving success, Inversion encourages you to consider how to avoid failure.

https://modelthinkers.com/mental-model/inversion

A good way to avoid failure is to learn from the mistakes of others. So you can avoid them.

With that context, let's now look at what is going on at Markel.

Below is a summary of what we will review in this post

- Markel Group - An update
- The activist appears
- Markel drops a bomb on (long term) shareholders
- Is a low share price the problem?
- What are the real problems at Markel?
    - Succession planning gone wrong?
    - Loss of family control?
- Another Mistake made - historic bond bond bubble / bear market
- What happens next?

Markel Group - An update

Markel was listed on the NASDAQ exchange in December 1986 with an IPO offered at $8.33 per share. Today, the stock trades at about $2,000 per share. Over the past 39 years, the CAGR in Markel's share price has been 15%, making it one of the top-performing public companies. Outstanding. The Markel family was responsible for over-seeing the majority of this run. Steven Markel currently serves as Chairman of Markel's board.

But something appears to have changed at Markel in recent years. And not in a good way. Markel appears to be making some mistakes. Most importantly, its crown jewel, specialty insurance, has been underperforming.

In September, 2023, Insurance Insider did a deep dive into Markel and its business. It goes into detail of what Markel's issues are. We have copied some of the key points below and provided a link to the article.

Markel: Trying to be Berkshire without Buffett

https://www.slipcase.com/view/inside-in-full-markel-trying-to-be-berkshire-without-buffett/3

It's a good business.

However, the firm has made repeated missteps in its insurance M&A strategy, with a huge Wrong Side of History Bet on ILS in 2015-18, following on from a so-so deal for Bermudian Alterra and the challenged acquisition of Terra Nova.

Its US E&S business remains strong, but it has arguably lost something intangible that it once had (and Markel is a company that believes in the value of intangibles). Here, Markel chose

diversification rather than doubling down just ahead of a Golden Age of US specialty. That choice was reflected in its decision to let Allied World – ultimately sold to Fairfax – go when takeover talks were held in 2016.

Crucially, the firm's share price has underperformed since the Financial Crisis, lagging the stronger specialty insurers massively and also behind the S&P 500. Some of this likely reflects its desire to walk the Berkshire path of investor relations without the gravitational pull of Buffett, and some of the challenges of getting full value ascribed to its non-insurance "Venture" businesses when it reports as an insurance company.

The activist appears

In November, 2024, activist investor Jana Partners appeared on the scene. On December 14, 2024, CNBC (in an article by Kenneth Squire) provided a good summary of Jana and why they have targeted Markel. We have copied some of the key points below and provided a link to the article.

Activist Jana calls on Markel to focus on insurance. Here's how the firm can help create value

https://www.nbcchicago.com/news/business/money-report/activist-jana-calls-on-markel-to-focus-on-insurance-heres-how-the-firm-can-help-create-value/3624425/?os=ios%2F%3Fno_journeystrue&ref=app

Jana is a very experienced activist investor founded in 2001 by Barry Rosenstein. The firm made its name by taking deeply researched activist positions with well-conceived plans for long term value. Rosenstein called his activist strategy "V cubed." The three "Vs" were" (i) Value: buying at the right price; (ii) Votes: knowing whether you have the votes before commencing a proxy fight; and (iii) Variety of ways to win: having more than one strategy to enhance value and exit an investment. Since 2008, the firm has gradually shifted that strategy to one which we characterize as the three "Ss" (i) Stock price – buying at the right price; (ii) Strategic activism – sale of company or spinoff of a business; and (iii) Star advisors/nominees – aligning with top industry executives to advise them and take board seats if necessary.

What is Jana calling for?

Jana called on Markel to improve its insurance operations and explore a separation or sale of its private investments business (Ventures). The firm also noted that the entire company presents an attractive acquisition target for larger insurers.

Markel drops a bomb on (long term) shareholders

When Markel reported YE 2024 results on Feb 5, 2025, they also delivered a surprise 'update' for shareholders.

Below are a few highlights:

Markel Group Inc. provides update for its shareholders

https://ir.mklgroup.com/investor-relations/news/news-details/2025/Markel-Group-Inc.-provides-update-for-its-shareholders/default.aspx

…we believe the value and potential of our combined group of businesses is not fully reflected in our current stock price.
In December 2024, JANA Partners publicly shared their perspectives on Markel Group and offered suggestions we might consider. We took this as an opportunity for broader self-reflection, in line with our commitment to the 'zealous pursuit of excellence.'

…we have decided to conduct a review of our business. It will be an opportunity to reflect on the changes over the past two years and ensure our goals and direction align with our shareholders' priorities.

The board will lead this review, assisted by external consultants and advisors. Our foremost focus will be the performance of our market-leading specialty insurance business. Insurance is at the heart of what we do, and we're fully committed to supporting areas within insurance that are excelling while also addressing underperformance.

Additionally, as part of the review we will consider ways to simplify our structure, optimize our approach to capital allocation, and enhance our disclosures. During this period, we expect to focus capital deployment on repurchasing shares under the recently announced $2 billion stock buyback program.

In November 2024, an activist investor shows up. And in February 2025, Markel announces they will be conducting a review of their business, with the help of external consultants and advisors.

Holy shit Batman!

External consultants and advisors? Really?

I wonder what Charlie Munger would say? (I think I know…)

Is this what well run companies do? Nope.

Clearly, the board/senior team at Markel don't know what to do. Or they do know… and they are unable to do it on their own.

How did Markel's shares respond to the 'update' provided by Markel?

Of course, Wall Street cheered the news - the shares finished the day up 8%. The volume of shares traded tripled. It appears Wall Street is now in control of the company. And maximizing short term value for shareholders is the new objective.

What about long term shareholders? Of course, Wall Street doesn't give a shit about them.

———————-

So, what is the big problem at Markel today?

Well one of the lead lines in Markel's press release was the following: "…we believe the value and potential of our combined group of businesses is not fully reflected in our current stock price."

The big problem appears to be a low share price.

But is a low share price really a problem?

No. A low share price is a gift.

What? Says who?

Some guy names Warren Buffett. Apparently, Tom Gaynor has never heard of this guy (Buffett), because if he had he would not be complaining about his share price being too low right now. Instead of complaining (and bringing in expensive 'external consultants and advisors' to tell him and the board what to do) he would be vacuuming up as many Markel shares as he could - and counting his lucky stars at his good future.

But I can hear you retort: 'Markel is buying back shares.'

Yes, they have been buying back shares. But how much?

Over the past 5 years Markel has reduced shares outstanding by 1.5% per year. Not much. Especially if you think your shares are dirt cheap (which Markel evidently does).

Let's look to Buffett again for guidance.

> "Opportunities come infrequently. When it rains gold, put out the bucket, not the thimble." *W. Buffett*

Capital allocation 101

When your shares are dirt cheap, any self-respecting value investor knows that is the time to back up the truck. Buybacks increase the per share intrinsic value for long term shareholders. And the action is low-risk / high certainty capital allocation activity. This is an example of jumping over a one foot hurdle.

And the longer the shares stay cheap the better (or so says that Buffett guy). It just means management can buy back more.

But Markel has just tipped its hand to Wall Street. And by announcing a 'review' they have also caused the stock to increase significantly in value. It's like asking the grocery store to raise prices before you do your shopping. So now Markel gets to complete with Wall Street/short term traders for shares - which of course just means they will now be paying a much higher price.

What about Markel shareholders?

Isn't a low share price good for them too? Especially if it stays low for a long time?

Well, this is really only true if management at Markel isn't asleep at the wheel - and is actually buying back shares - and in volume. Which they aren't. So, I guess that partly explains why some Markel shareholders are getting a little testy. And why an activist like Jana is getting the time of day from anyone.

As an aside… Fairfax has had a similar problem - a share price trading well below its intrinsic value. Their solution? Over the past 5 years (2019 to 2024), they have bought back 19.1% of their shares outstanding, paying an average price of $630/share. They also got exposure to another 1.96 million via FFH-total return swaps at $373/share (meaning they effectively 'took out' 26.4% of shares outstanding at an average price of $560/share). From a capital allocation perspective, buybacks have been Fairfax's biggest use of cash over the past 5 years. The per share value creation has been enormous (shares were purchased significantly below intrinsic value). Over the past 5 years, Fairfax's has generated a total shareholder return of 208%, or a CAGR of 25.2%. As a result, Fairfax shareholders are pretty happy campers these days.

Over the same time period, Markel has delivered a total shareholder return of 51%, or a CAGR of 8.6%.

Shares Outstanding - 5 -Year Change (2019 to 2024)							5-Year Change		
(million)	2019	2020	2021	2022	2023	2024	m	%	CAGR
Markel	13.8	13.8	13.6	13.4	13.1	12.8	-1.00	-7.3%	-1.5%
Fairfax	26.8	26.2	23.9	23.3	23.0	21.7	-5.13	-19.1%	-4.1%

Total Shareholder Return - 5 -Year Change (2019 to 2024)							5-Year Total Shareholder Return				
	Year End Share Price						Change	Total	Total		
US$	2019	2020	2021	2022	2023	2024	Shares	Dividend	$	%	CAGR
Markel	$1,143	$1,033	$1,234	$1,317	$1,420	$1,726	$583	$0	$583	51%	8.6%
Fairfax	$469	$341	$492	$594	$921	$1,390	$921	$55	$976	208%	25.2%

———

Buffett on share buybacks

Below is what Buffett had to say about share buybacks in his 1984 shareholder letter (published February 1985).

"The companies in which we have our largest investments have all engaged in significant stock repurchases at times when wide discrepancies existed between price and value. As shareholders, we find this encouraging and rewarding for two important reasons - one that is obvious, and one that is subtle and not always understood.

"The obvious point involves basic arithmetic: major repurchases at prices well below per-share intrinsic business value immediately increase, in a highly significant way, that value. When companies purchase their own stock, they often find it easy to get $2 of present value for $1. Corporate acquisition programs almost never do as well and, in a discouragingly large number of cases, fail to get anything close to $1 of value for each $1 expended.

"The other benefit of repurchases is less subject to precise measurement but can be fully as important over time. By making repurchases when a company's market value is well below its business value, management clearly demonstrates that it is given to actions that enhance the wealth of shareholders, rather than to actions that expand management's domain but that do nothing for (or even harm) shareholders. Seeing this, shareholders and potential shareholders increase their estimates of future returns from the business. This upward revision, in turn, produces market prices more in line with intrinsic business value. These prices are entirely rational. **Investors should pay more for a business that is lodged in the hands of a manager with demonstrated pro-shareholder leanings than for one in the hands of a self-interested manager marching to a different drummer.**

"**The key word is "demonstrated". A manager who consistently turns his back on repurchases, when these clearly are in the interests of owners, reveals more than he knows of his motivations. No matter how often or how eloquently he mouths some public relations-inspired phrase such as "maximizing shareholder wealth" (this season's favorite), the market correctly discounts assets lodged with him. His heart is not listening to his mouth - and, after a while, neither will the market.**" *Buffett Shareholder Letter - 1984*

Is a low share price really the problem at Markel. No, of course not. But it might be a symptom of bigger problems.

What is really going on at Markel?

I think there are two root causes to Markel's current issues:

1. Succession planning gone wrong.
2. Loss of family control.

The first one should be fixable. The second, not so much. Both will have important implications for Markel's future.

Succession planning gone wrong

For decades, Markel was exceptionally well run. It had a pretty simple formula: A leading specialty insurance business + invest wisely (Gaynor's long term record investing in equities has been very good).

But the last 8 or 9 years?

It appears Markel is having a bit of a midlife crisis. It has lost its way in its core specialty insurance business. And it is trying to build a third stool to its business - Ventures - and become a conglomerate like Berkshire Hathaway.

Markel's struggles today highlight the difficulties and the importance of transitioning from a founder led company to a non-founder led company. Clearly, something has been lost. Hopefully Markel is able to figure it out.

But hey, at least Markel is still controlled by the Markel family. So, they will be given the time needed to right the ship. Right?

Wrong. This used to be the case. This is no longer true.

Loss of family control

How much of Markel does the Markel family own?

At March 14, 2024, the two Markel family members serving on the board (Anthony, age 82 and Steven, age 75) owned/controlled 178,375 shares, which is about 1.3% of total shares outstanding (13.8 million). The two Markels also seem to be slowly selling shares each year, which is interesting.

All directors, director nominees and executive officers as a group owned 1.7% of Markel's outstanding share (at March 14, 2024). Needless to say, from a stock ownership perspective, I think it is safe to say that the Markel family is no longer in control of Markel. (Source - From notice and proxy statement for Markel's 2024 annual meeting)

It is interesting to compare this to Fairfax. Prem's economic ownership stake in Fairfax is about 9.5%. And his voting control position is more than 40% (due to multiple voting shares). He is also grooming his son/daughter. Fairfax will continue to be a family controlled company for the foreseeable future.

But what about Berkshire Hathaway? Is Buffett not giving most of his shares to various charities? Who will be selling chunks every year?

Bottom line, it doesn't look to me like Berkshire Hathaway will have a controlling shareholder. Especially 10+ years after Buffett is gone.

Now maybe the sheer size of Berkshire will act as a deterrent to activist shareholders. Or maybe it will be a catalyst - the short term financial rewards of breaking up Berkshire Hathaway could be enormous (especially if the company - like Markel - hits some pot holes and begins a stretch of underperformance).

The question that is usually asked is the following: 'Is family control a good thing?'

With what is going on with Markel today, perhaps the better question is: 'Can the business model survive without family control.'

My view is Markel's current business model (investing in equities and Ventures) requires family control to be sustainable over the long run.

The equity part of the equation is hard enough. There is a reason other P/C insurance companies don't do it - despite the fact that it will deliver higher returns than a bond only portfolio over the long run (if done well).

But trying to also build out a Ventures portfolio - that is even more difficult. These investments are much more illiquid and much of the value creation is not captured in accounting results (EPS and BV) in the short term.

Once again, we can look to Buffett for guidance.

> "Our equation is different. **With 47% of Berkshire's stock, Charlie and I don't worry about being fired**, and we receive our rewards as owners, not managers. Thus we behave with Berkshire's money as we would with our own. That frequently leads us to unconventional behavior both in investments and general business management." *Buffett Shareholder Letter - 1984*

Buffett is telling us that having a control position is what gives him the peace of mind/ability to invest in equities and to buy entire businesses. He is the GOAT. And he thinks this is important.

And that is because Buffett understood that investing in equities was volatile - and could result in short term underperformance (short term = a couple of years). At the same time, he also understood that when buying control positions, it might take 5 or more years for the economic value to be reflected in the accounting results (eventually showing up in investment gains). But because he had a control position, he was able to make decisions that he knew would pay off in the long term.

Gaynor is good… but he is no Buffett. When it comes to buying both equities and buying control positions. If Markel's share price underperforms for a few years… well, the Wall Street vultures will probably start clamouring for change… and for value to be surfaced.

And what do you know… that is exactly what seems to be playing out today.

Now that the Markel family is no longer in control of Markel, having an equity heavy investment portfolio will likely be challenging enough - very strong equity market returns the past 2 years have provided a reprieve (and likely inflated BV at YE 2024)… but another bear market in stocks is coming. What will Jana (and the rest of Wall Street) say when that happens?

The Ventures part is the real head scratcher (with no family control). It looks to me like the decision to grow Ventures might prove to have been a strategic mistake.

But there is another related problem.

Buy and hold forever

Over time, economic value that has been created will show up in accounting results - via capital gains. But buy and hold forever slows this process down.

This has not been a problem for Buffett. He has created so much value, that if some of it is not recognized right away… well, who cares. But, as we said earlier, Gaynor is not Buffett - his results will not be nearly as good. He can't afford to wait like Buffett.

This is not a criticism of Gaynor… no one will be as good as Buffett. But for Gaynor to want to clone Buffett in this regard… well that is a problem. Markel will look like it is underperforming compared to peers. And that will not sit well with Wall Street or Markel shareholders.

I much prefer Fairfax's approach in this regard. It is more classic Graham. Buy stuff when it is cheap. Sell it when it is expensive. Rinse and repeat. Importantly, this strategy more quickly/continually surfaces the significant economic value that is building on Fairfax's balance sheet with its equity and control positions. And once it shows up in accounting results (EPS and BV) it gets reflected in the valuation of the company and the share price.

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Another Mistake made - historic bond bubble / bear market

If we are going to discuss mistakes made at Markel in recent years, we need to discuss one more forced error. Most P/C insurance companies made this same error. Because most everyone did it… well, it is something not usually discussed today in polite company (especially among analysts).

Markel has a 'policy' of matching the average duration of its bond portfolio with the average duration of its insurance liabilities. This kind of makes a lot of sense most of the time.

When does it not make sense?

When a historic bubble in bonds is blowing. Like what we saw in 2020 and 2021.

The 5 year US Treasury traded at a yield below 40 basis points for much of 2020. The 10 year treasury traded at a yield below 70 basis points for much of 2020.

What were P/C insurance companies doing in 2020 and 2021? They were busy buying bonds - and making sure they were matching the maturity to their insurance liabilities. If that meant buying the 5 year US Treasury at a yield of 0.5% that is what they did. Because they were prudent insurance companies, after all, not market timers or 'macro' investors (that would be terrible).

What were P/C insurance companies missing?

Apparently, they did not understand some arcane concept called duration risk.

What was the mistake?

When interest rates went to zero (across the curve) in 2020 and 2021, investors were not getting paid for taking on duration. There was no margin of safety when purchasing bonds with duration.

Taking on duration opened you up to significant losses - of a size large enough to impact the balance sheet.

What happened in 2022?

The inflation genie got out of the bottle and interest rates spiked higher. The value of bonds got torched, especially those with a longer duration. And because most P/C insurance companies invest primarily in bonds, their balance sheets got torched - with book value per share at most P/C insurance companies falling 10% to 20% in 2022.

Yes, it wasn't a solvency issue for most P/C insurance companies (although it could have been for some if 2021/2022 had been historically bad for catastrophes).

Buffett talks about accounting value often being different from economic business value. Interest rates spiking in 2022 was a great example of serious destruction of economic value at P/C insurance companies - that was not reflected in the accounting results (like EPS and ROE).

Buffett thought it was idiotic to buy duration in 2021. Why? Value investing 101. And this was not Buffett's first rodeo with spiking interest rates… a similar thing happened in the mid 1980's. He wrote about it in his shareholder letters then (and the damage it did to insurance companies balance sheets then).

Gaynor is a value investor. He is trying his best to clone Berkshire Hathaway. He should have known better. Policies and procedures are good. But they can't become a straight-jacket. Or used as an excuse for lazy thinking. This is a judgement thing… and it does not look good on Gaynor. It cost Markel more than $1 billion - in 2022 BV fell by 10% (and stunted growth in BVPS for years). Even today, their fixed income portfolio yield is low (3.2% for 'fixed income securities', which does not include 'short term investments' which is 4.8%) - the earn through of higher rates has been slow.

Like Berkshire Hathaway, Fairfax recognized that bonds were in a bubble and investors were not being paid to take duration. In late 2021, Fairfax reduced the average duration of their fixed income portfolio to 1.2 years. In Q4, 2021, Fairfax sold $5.2 billion in corporate bonds (acquired in March/April 2020) at yields of 1% and booked an investment gain of $253 million. BVPS at Fairfax actually went up in 2022.

Some pundits have called what Fairfax did a 'macro bet.' It wasn't. It was simple value investing. And basic risk management - protecting the balance sheet - something that is critically important to an insurance company. Especially at the beginning of a hard market.

Markel - 5-Year Change in BVPS and Share Price							5 Year Change (2019 to 2024)		
Year End	2019	2020	2021	2022	2023	2024	$	%	CAGR
BVPS	$803	$886	$1,036	$929	$1,096	$1,276	$473	59%	9.7%
Share Price	$1,143	$1,033	$1,234	$1,317	$1,420	$1,726	$583	51%	8.6%
Estimate from mangement at Markel (Feb 5, 2025)									
Intrinsic Value	$1,126	$1,381	$1,603	$1,833	$2,236	$2,610	$1,485	132%	18.3%

What happens next?

What will happen next with Markel? It is impossible to know.

- Nothing.
- Sell Ventures.
- Sell the whole company.

Bottom line, it appears the company is in play. And Wall Street loves it.

Fairfax (and Berkshire Hathaway) should be paying attention to what is going on at Markel today. Markel is likely providing an important teachable moment for Fairfax and Berkshire Hathaway, their boards (and their shareholders).

The Change in Share Ownership – the Markel Family

In 1995, the Markel family owned 24.5% of Markel. In 2024, their ownership stake had fallen to 1.3%. That is a staggering difference. Actions speak louder than words.

Source: Notice and proxy statement for Markel's 1995 annual meeting:

NAME	BENEFICIAL OWNERSHIP COMMON STOCK	PERCENT
<S>	<C>	<C>
Anthony F. Markel 4551 Cox Road Glen Allen, VA 23060	434,6791	8.02%
Gary L. Markel 9700 Ninth Street North St. Petersburg, FL 33702	358,4842	6.65%
Steven A. Markel 4551 Cox Road Glen Allen, VA 23060	536,5003	9.90%
Alan I. Kirshner	189,1914	3.48%
Leslie A. Grandis	15,6005	*
Stewart M. Kasen	8,7036	*
Darrell D. Martin	70,2337	1.30%
V. Prem Watsa	6,0008	*
All directors and executive officers as a group	1,619,3909	29.23%
</TABLE>		

Source: Notice and proxy statement for Markel's 2024 annual meeting

AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP

Name	Direct Ownership[a]	Other Ownership	Total Beneficial Ownership	Percent	Restricted Stock Units[b]
Mark M. Besca	785	—	785	*	—
K. Bruce Connell	2,847	172[c]	3,019	*	—
Lawrence A. Cunningham	534	—	534	*	—
Thomas S. Gayner	20,606	5,219[d]	25,825	*	28,183[e]
Greta J. Harris	656	—	656	*	—
Morgan E. Housel	544	—	544	*	—
Diane Leopold	1,760	500[f]	2,260	*	—
Anthony F. Markel	15,000	61,915[g]	76,915	*	—
Steven A. Markel	69,688	31,772[h]	101,460	*	—
Harold L. Morrison, Jr.	746	—	746	*	—
Michael O'Reilly	3,386	—	3,386	*	—
A. Lynne Puckett	468	960[i]	1,428	*	—
Michael R. Heaton	1,587	149[j]	1,736	*	2,307
Jeremy A. Noble	834	233[k]	1,067	*	3,021[l]
Richard R. Grinnan	1,620	96[m]	1,716	*	1,513
Brian J. Costanzo	250	206[n]	456	*	354
Teresa S. Gendron	—	—	—		655[o]
All directors, director nominees and executive officers as a group	121,755	101,402[p]	223,157	1.71%	36,982[q]
The Vanguard Group 100 Vanguard Blvd., Malvern, PA 19355[r]	1,191,714	—	1,191,714	9.14%	—
BlackRock, Inc. 50 Hudson Yards, New York, NY 10001[s]	762,961	—	762,961	5.85%	—

* Less than 1% of class.

Chapter 12: General Interest Topics

Chapter 11 contains a hodgepodge of posts – topics that are interesting but did not naturally fit into one of the other chapters.

The Fundamental Job of a CEO is to Optimize for Long Term Value Creation Per Share

August 22, 2025

> "Our long-term economic goal (subject to some qualifications mentioned later) is to maximize the average annual rate of gain in intrinsic business value on a per-share basis. We do not measure the economic significance or performance of Berkshire by its size; we measure by per-share progress."
>
> *Warren Buffett - Letter to Shareholders – Berkshire Hathaway 1983AR*

The fundamental job of a CEO is to optimize for long term value creation per-share.

Yes, I know this sounds obvious… but it's not how most CEO's think or manage the business.

First, most publicly traded companies are not focused on the long term. They can't be. Instead, they are focused on delivering the expected quarterly number. **This means their primary focus is to deliver non-volatile expected results.**

Second, most publicly traded companies are not focused on per-share value creation. Yes, they might be focused on value creation. But not the per-share part.

Companies that are laser focused on long term value creation per-share are rare. Finding one that operates this way is usually a good thing for an investor.

How can you tell?

One 'tell' is by how they communicate to shareholders.

Berkshire Hathaway provides a good example.

Look how Warren Buffett for decades used to start off each of his shareholder letters (up to 2017):

> "Berkshire's gain in net worth during 2017 was $65.3 billion, which increased the **per-share** book value of both our Class A and Class B stock by 23%. Over the last 53 years (that is, since present management took over), **per-share** book value has grown from $19 to $211,750, a rate of 19.1% compounded annually." *Warren Buffett - Letter to Shareholders - 2017AR*

Buffett began each letter by concisely summarizing one-year and since-inception results per-share.

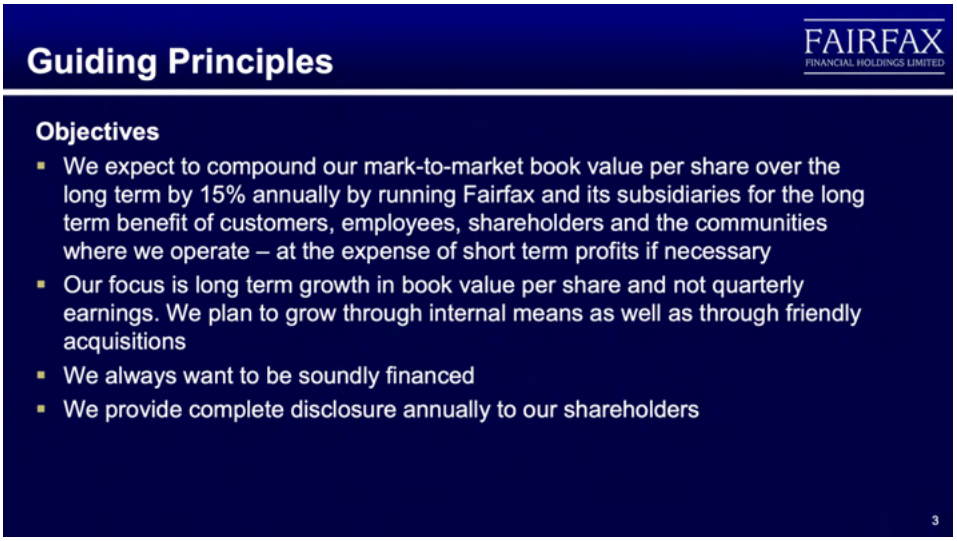
Fairfax Financial provides another good example.

Like Berkshire Hathaway, Fairfax is laser focused on long term value creation per-share. Per-share is the language the company speaks.

Below are three slides from Fairfax's Annual Meeting held in Toronto on April 10, 2025.

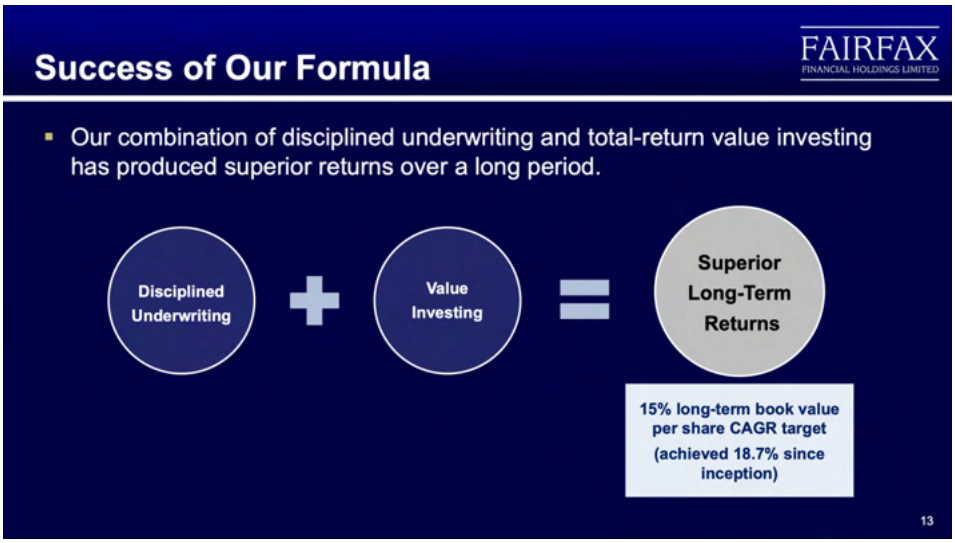
The first slide communicated to people attending the meeting was Fairfax's Guiding Principles:

- Objective: "…to compound our mark-to-market book value per share over the long term by 15% annually…"
- "Our focus is long term growth in book value per share and not quarterly earnings."



Fairfax then communicated how they define success:

- Disciplined investing + value investing = superior long-term returns (defined as growth in long-term book value per-share).



Lastly, Fairfax then communicated their performance for shareholders:

- 39-year CAGR in BVPS (18.7%) and US$ share price (19.1%).

Bottom line, Fairfax is one of the 'good ones' – is it laser focussed on optimizing long term value creation per share. Its interests are clearly aligned with those of long term shareholders.

Tracking the Per Share Change in Net Premiums Written, Investments and Float

August 22, 2025

Three of the most important metrics to measure the growth of a P/C insurance company over time are net premiums written, total investment portfolio and float. The change in the total values is important. But what is much more important, is the change in per share values over time.

How has Fairfax performed?

Over the past 10 years, growth at Fairfax across all three metrics has been very strong. Especially when measured per share.

- Net premiums written CAGR per share = 15.0%
- Investment portfolio CAGR per share = 9.7%
- Float per share CAGR = 11.5%

The growth from 2016 to 2018 was driven by acquisitions (diluted by meaningful share issuance). The growth from 2019 to 2024 has been driven by organic growth (hard market) in insurance (and aided by meaningful share repurchases).

It should be noted that Fairfax has achieved this impressive growth in both soft and hard P/C insurance markets.

Perhaps surprisingly, given the slowdown of the hard market, the per share growth in 2024 across all three metrics has continued at a robust pace:

- Net premiums written growth per share = 17%
- Investment portfolio growth per share = 10%
- Float growth per share = 12%

The per share growth in 2024 was driven by acquisitions (GIG), a continuation of the hard market and meaningful share buybacks. Fairfax has many levers it can pull to continue to grow its business in the coming years – even if the hard market in insurance continues to slow.

This 10-year track record of meaningful growth per share across all important metrics is further proof of how well the management team at Fairfax is performing for long term shareholders.

Fairfax: 10-Year Growth of NPW, Investments and Float (2014 to 2024)										
	Net Premiums Written			Total Investments			Float (Re/Insurance)			YE Share Count
Dec 31	$ b	Per Share	Change	$ b	Per Share	Change	$ b	Per Share	Change	
2014	$6.1	$289	n/a	$26.2	$1,235	n/a	$11.6	$547	n/a	21.2
2015	$7.5	$339	17%	$29.0	$1,307	6%	$13.7	$617	13%	22.2
2016	$8.1	$350	3%	$28.4	$1,231	-6%	$14.1	$610	-1%	23.1
2017	$10.0	$359	3%	$39.3	$1,412	15%	$20.4	$734	20%	27.8
2018	$12.0	$442	23%	$38.8	$1,428	1%	$19.7	$724	-1%	27.2
2019	$13.3	$495	12%	$39.0	$1,456	2%	$20.6	$769	6%	26.8
2020	$14.7	$562	14%	$43.2	$1,648	13%	$22.7	$866	13%	26.2
2021	$17.8	$745	33%	$53.0	$2,218	35%	$25.9	$1,084	25%	23.9
2022	$22.3	$957	28%	$55.5	$2,381	7%	$29.1	$1,249	15%	23.3
2023	$22.9	$996	4%	$64.8	$2,816	18%	$33.4	$1,452	16%	23.0
2024	$25.3	$1,166	17%	$67.4	$3,105	10%	$35.4	$1,631	12%	21.7
10-YR	**$19.2**	**$877**	**304%**	**$41.2**	**$1,869**	**151%**	**$23.8**	**$1,084**	**198%**	**0.5**
CAGR	**15.3%**	**15.0%**		**9.9%**	**9.7%**		**11.8%**	**11.5%**		**0.2%**

The P/C Insurance Cycle - Is it Time for Investors to Head for the Hills?

August 18, 2025

As the hard market slows, we will begin to hear the drumbeat of the doomers - they will confidently tell you that it is time to sell your P/C insurance stocks. The drumbeat will likely get louder and louder over the next year.

So, with this post let's explore the P/C insurance cycle to see what we can learn.

The P/C insurance market is not rational

Like financial markets, the P/C insurance market is not rational.

How do we know it is not rational?

Because it constantly cycles between hard to soft to hard to soft markets. The cycles are long. And they usually go to extremes.

If the P/C insurance market was rational it would not cycle to the extent that it does.

What causes the insurance cycle?

Just like financial markets, what causes the insurance cycle is greed and fear.

- Greed = The end result is a soft market (product is sold at or below cost, generating low or negative returns).
- Fear = The end result is a hard market (product is sold above or well above cost, generating good or very good returns).

Doesn't this make P/C insurance a pretty shitty business?

No. If all the players were rational then P/C insurance would be a shitty business - it would be impossible for anyone to make any money (outsized profits would quickly get competed way).

The fact that many of the players are not rational is what makes P/C insurance such a great business. The rational actors are able to profit greatly from the folly of the irrational actors.

Investors should welcome the insurance cycle.

Having a good mental model can help

Ben Graham provides investors with a great mental model (called Mr. Market) to help them understand and make money from investing in financial markets.

Mr. Market (the stock market) often engages in irrational behaviour. Some days he is pessimistic, willing to sell his stocks at very low prices. Other days he is euphoric, willing to buy your stocks at

very high prices. The prices he quotes often have nothing to do with the fundamentals of the business. The more extreme his behaviour (the higher the volatility) the better for you - the more you can profit.

"Mr. Market is there to serve you, not to guide you. It is his pocketbook, not his wisdom, that you will find useful." *Warren Buffett - BRK 1987AR*

Is there a parallel for the P/C insurance market?

Is there a good mental model we can use to help us understand the P/C insurance market cycle?

Yes. Paul Ingrey and his P/C insurance clock.

With his P/C insurance clock Paul explains how the insurance underwriting cycle works. It is a behavioural model - and is built on the simple assumption that P/C insurance companies will engage in irrational behaviour (like they always have in the past).

- PDF version of the clock: https://www.archgroup.com/wp-content/uploads/00464-Ingrey-Underwriting-Cycle-Clock-FINAL.pdf
- Text version of the clock: https://www.archgroup.com/the-underwriting-lifecycle/

The insurance cycle exists because of 'stupidity.' Paul Ingrey said he put the P/C insurance clock together to remind people of how stupid they are (at 37:30 of the podcast linked below).

Who is Paul Ingrey?

The podcast below is from 2018. It is a great introduction to Paul Ingrey - one of the greats in the P/C re/insurance world.

No Change Without Fear With Paul Ingrey

- https://podcast.notunreasonable.com/126848/episodes/629958-no-change-without-fear-with-paul-ingrey

Summary of podcast:

For reinsurance people, this interview is electric.

Paul Ingrey founded three of the most successful reinsurance companies of the last 40 years: Prudential Re (Everest Re), F&G Re (10% of staff became CEOs) and Arch Re (as we know it today). Thousands of people in the industry can trace their employment back to Paul's unique mix of discipline and charisma.

Being successful in insurance, like with many things, isn't complicated (write business in hard markets and not in soft markets) but it's devilishly hard to pull off. Paul is perhaps the original master of the cycle.

In the show we cover a complete modern history of insurance cycles, starting in the mid-60s, Paul's insurance cycle clock (see here), stories of the founding of each of the companies that would define his legacy and more.

Of note, Paul Ingrey served on the Board of Fairfax for about 2 years from 2000 to 2001.

"…we welcome Paul Ingrey to the Board. Paul has had one of the best track records in the reinsurance business, having founded and run F&G Re (part of U.S. F&G, now St. Paul's) for 14 years with a cumulative combined ratio of 91%. We look forward to Paul's wise counsel in the years to come." *Prem's shareholder letter - Fairfax 2000AR*

"Due to possible conflicts arising from his position as Chairman and CEO of Arch Reinsurance, Paul Ingrey retired from our Board during the year, but we hope to welcome him back when he retires again." *Prem's shareholder letter - Fairfax 2002AR*

Volatility

"Be fearful when others are greedy, and greedy when others are fearful." *Warren Buffett*

Volatility in financial markets is a wonderful thing. It allows rational investors to make outsized returns over time.

Volatility in P/C insurance markets is also a wonderful thing. It allows rational P/C insurance companies to make outsized returns over time.

How to exploit volatility in the P/C insurance business

Our chart below summarizes what is usually the best way to allocate capital through the insurance cycle.

In a soft market (when margins are under pressure), be very disciplined with underwriting (minimal organic growth). The goal is to preserve capital. P/C insurance company valuations tend to be depressed in a soft market so this can be a good time to grow by acquisition (later in a soft market).

In a hard market (when margins are expanding), get aggressive with underwriting new business (strong organic growth). The goal is to aggressively deploy capital. P/C insurance company valuations tend to be rich in a hard market so this is generally not a good time to grow by acquisition.

Exploiting the P/C Insurance Cycle		
Source of Growth	**Soft Market**	**Hard Market**
Organic	No	Yes
Acquisition	Yes	No

What do many P/C insurance companies actually do?

In a soft market many P/C insurance companies keep growing organically (some aggressively). Over time, this begins to impair their capital base (writing unprofitable business eventually sucks). This also means they do not have the money to grow by acquisition later in a soft market.

At the beginning of a hard market, they are capital constrained - so they have a limited ability to grow organically. But as the hard market plays out their capital base gets fixed and they attempt to grow by acquisition (paying high prices).

This approach has a parallel in financial markets - it is like buying high and selling low. Except because of how pricing in P/C insurance works, you just don't know that you are buying high in a soft market (or you don't care - i.e. it becomes some else's problem in the future).

Yes, that is a very hard way to make money over time.

The winners in P/C insurance are the contrarians

Just like with investing, the winners in P/C insurance are the contrarians. It is the rational actors. The companies with great discipline. And a long term focus.
Let's go back to the question we asked at the start of this post.

As we approach the end of the hard market, is it time for investors to head for the hills and sell their P/C insurance stocks?

Soft markets are not to be feared. Well run P/C insurance companies welcome the insurance cycle. They don't fear it. They exploit it. Soft markets sow the seeds of the next hard market.

Well run P/C insurance companies will do well over the insurance cycle. Poorly run insurance companies underperform over the insurance cycle.

So, you need to figure out if you own one of the well run P/C insurance companies.

But there is more…

We need to broaden out our analysis

Our analysis above only discussed underwriting. But as everyone knows, all P/C insurance companies have two businesses:

- P/C insurance (underwriting)
- Investment management

Now when it comes to investment management, almost all P/C insurance companies follow the same model - they put their investment portfolio primarily in bonds. And they match the average duration of the investment portfolio with the average duration of their insurance liabilities. The investment portfolio is put on autopilot. AND THE RETURNS ARE (USUALLY) NOT VOLATILE.

Soft market? Hard market? The P/C insurance market cycle doesn't matter for most P/C insurance companies when it comes to what they do with their investment portfolio.

The genius of Warren Buffett

Warren Buffett has always understood what it takes to have a well-run P/C insurance business.

- Be very disciplined with underwriting in a soft market.
- Drive strong organic growth a hard market.
- Be very opportunistic with acquisitions.

But what makes Buffett unique is what he did with the investment management part of the business. Buffett figured out that equities can deliver a much better return than bonds over time. I know, what a freaking genius.

This benefits Berkshire Hathaway in two important ways:

1. Investing in equities boosts the return of the investment portfolio (compared to what is earned by other P/C insurance companies).
2. In a soft market capital that is not needed in the P/C insurance business can be shifted to equities. This allows BRK to maintain a high ROE even in a soft insurance market. And when the next hard market starts (years later), all the excess capital that has built up can be used to turbo-charge the growth of the P/C insurance business.

Warren Buffett took the P/C insurance model to its logical conclusion:

- Exploit volatility (the insurance cycle) in the P/C insurance business.
- Exploit volatility (invest in equities) in the investment management business.

Don't just do it with insurance. Do it also with investment management.

The result of this union has been magical for investors in Berkshire Hathaway. From 1965 to 2024 (59 years), the per share market value of Berkshire Hathaway has delivered a compound annual gain of 19.9%.

What Buffett is doing is kind of like shooting fish in a barrel.

But here is the crazy thing… Buffett isn't secretive about what he is doing. For 59 years he has been educating investors (and competitors) on his business model. And Buffett is a great communicator… you would have to be an idiot to not understand him.

We all know markets are wickedly efficient. If someone invents a better mousetrap… their advantage will not last long. Because competitors will copy what they are doing and this will in short order compete away and advantage that exists.

So' most P/C insurance companies are copying Buffett's business model. Right?

No. Actually almost no other P/C insurance company is copying Buffett.

Honest. It's true.

Why don't all P/C insurance companies copy Warren Buffett's model?

Charlie Munger was asked this same question. And he had no answer (if I remember his response correctly). Which says something because Charlie was a pretty sharp guy and not shy to let you know what he was thinking.

My guess is most P/C insurance companies don't follow Buffett's model for one simple reason: they are not running the business for the long term. Because they can't.

It can be explained: Volatility

Wall Street hates volatility. It defines volatility as risk (which is absurd). Wall Street also is obsessed with the short term (and smooth results). And yes, Wall Street is that same manic-depressive called Mr. Market. It really is a delicious cocktail. And these are the basic building blocks that determine how almost all P/C insurance companies run their business. Wall Street is in control.

So even though Buffett's model is obviously the best one to use - if your goal is to maximize per share value creation for shareholders over the long term - well, pretty much no one uses it. Because they can't.

Crazy but true.

The key is family control

Buffett had this. Having control allowed Buffett to ignore Wall Street.

Markel is going to be a great case study for my theory in the coming years. They were a family controlled organization… and when they were their returns for shareholders smoked. They are no longer a family controlled company…. and their returns for shareholders in recent years have started to stagnate. Of interest, who is Markel looking to for guidance to right their ship? Wall Street. Yikes! (Looks to me like they are letting the fox into the henhouse… but what do I know?).

What about Fairfax Financial?

This is where our story gets really interesting.

Unlike Markel, Fairfax is still a family controlled company. Prem Watsa owns more than 9% of Fairfax and he has voting control of more than 40%. He also is in the process of grooming the next generation to continue the family's stewardship of the company. Bottom line, Fairfax will remain a family controlled business in the coming decades.

Let's shift from theory to the real world.

How has Fairfax fared over the past 10 years?

We can split the past 10 years into the following:

- From 2014 to 2019, P/C insurance was in a soft market.
- From 2020 to 2024, P/C insurance was in a hard market.

Let's look at two key metrics for a P/C insurance company: net premiums written (NPW) and total investment portfolio

In the soft market from 2014 to 2019:

- NPW increased from $6.1 to $13.3 billion, or a total of $7.2 billion. This was a 5-Year CAGR of 16.8%.
- Total investments increased from $26.2 to $39.0 billion, or a total of $12.8 billion. This was a 5-Year CAGR of 8.3%.

Bottom line, Fairfax dramatically grew its P/C insurance business (and its investment portfolio) in a very soft P/C insurance market. How? By making many acquisitions (Brit, international and Allied World) at reasonable prices.

In the hard market from 2019 to 2024:

- NPW increased from $13.3 to $25.3 billion, or a total of $12 billion. This was a 5-Year CAGR of 13.7%.
- Total investments increased from $39.0 to $67.4 billion, or a total of $28.4 billion. This was a 5-Year CAGR of 11.6%.

Bottom line, Fairfax dramatically grew its P/C insurance business (and its investment portfolio) in a very hard P/C insurance market. How? By growing organically.

How has Fairfax done over the past 10 years?

- NPW increased from $6.1 to $25.3 billion, or a total of $19.2 billion. This was a 10-Year CAGR of 15.3%.
- Total investments increased from $26.2 to $67.4 billion, or a total of $41.2 billion. This was a 10-Year CAGR of 9.9%.

Bottom line, Fairfax dramatically grew its P/C insurance business (and its investment portfolio) in both soft and hard P/C insurance markets. Just what you would expect from a very well run P/C insurance company. Importantly, over the past 10 years, Fairfax has also improved the quality of its P/C insurance business. It is not just much bigger - it is also higher quality.

Fairfax - Change in NPW and Investments over Insurance Market Cycles				
		Soft	Hard	
August 18, 2025		5-Year	5-Year	10-Year
(billion)	2014	2019	2024	Change
Net Premiums Written	$6.1	$13.3	$25.3	
Growth		$7.2	$12.0	$19.2
CAGR		16.8%	13.7%	15.3%
Investment Portfolio	$26.2	$39.0	$67.4	
Growth		$12.8	$28.4	$41.2
CAGR		8.3%	11.6%	9.9%

What have we learned?

Fairfax business model is unique in the P/C insurance industry. Family control appears to be a sustainable competitive advantage for the company. It allows the company to run the business (insurance and investments) for the long term.
In terms of business model, Fairfax today looks like a much younger Berkshire Hathaway:

- **Exploit volatility (the insurance cycle) in the P/C insurance business.**
- **Exploit volatility (invest in equities) in the investment management business.**

Fairfax has a high quality P/C insurance business: My guess is it currently has a 'normalized' combined ratio of about 94%, which is very good.

At the same time, its investment management business is executing exceptionally well: My guess is Fairfax is currently generating a 'normalized' return on its investment portfolio of about 8%, which is outstanding.

And when it comes to capital allocation, Fairfax has been best-in-class among P/C insurance companies over the past 5 years. As Stanley Druckenmiller would say, the management team at Fairfax has been on a 'hot streak.'

Bottom line, Fairfax has never been better positioned an it is today to continue to drive per share value for long term shareholders. Regardless of where we are at in the insurance cycle.

From 1986 to 2024 (38 years), the per share market value of Fairfax's stock has delivered a compound annual gain of 18.3% (US$) for shareholders. Unlike Berkshire Hathaway, Fairfax appears to be just entering its prime. And it is still a small company - it has a long runway ahead of it.

For those who want to learn more about the P/C insurance cycle:

Forecasting Underwriting Cycle: A wild goose chase or a quantum leap?
By Dhrubo Banerjee - Swiss Re (April 24, 2025)

https://vle.actuaries.org.uk/pluginfile.php/160525/mod_resource/content/1/Forecasting%20Underwriting%20Cycle%20-%20A%20wild%20goose%20chase%20or%20a%20quantum%20leap.pdf

The Underwriting Cycle
By David Skurnick- CAS Underwriting Cycle Seminar (April 19, 1993)

https://www.casact.org/sites/default/files/database/forum_93sforum_93sf377.pdf

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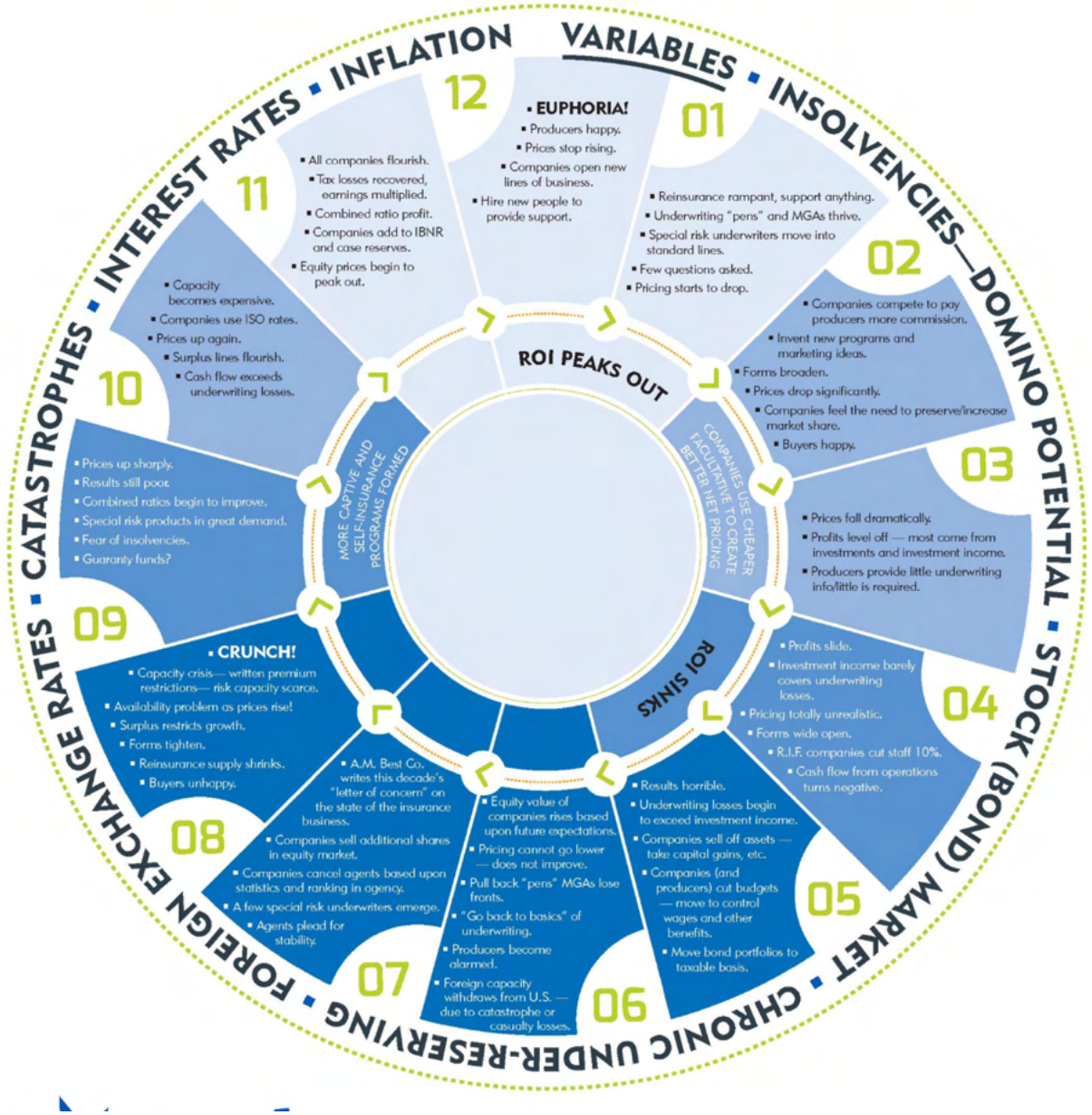
Paul Ingrey's Insurance Clock

Of interest, Paul served on Fairfax's board in 2001/02 (stepping down due to his role at Arch).

The underwriting life cycle: https://www.archgroup.com/the-underwriting-lifecycle/
Creating shareholder value through the insurance cycle has been central to the company's management philosophy since Arch was established in 2001. We don't chase unprofitable business in soft markets, but we do write more business as attractive opportunities arise in hard markets.

Paul Ingrey was a founding member, Chairman and Director of Arch Capital Group Ltd. In 1985, as president of F&G Re, he created this clock to help measure the insurance underwriting cycle.



What is the quality (earnings power) of Fairfax's equity portfolio?

June 15, 2024

What is the quality of Fairfax's equity portfolio?

My thesis is as follows: Fairfax's equity holdings (as a group) have materially improved in quality (earnings power) over the past 6 years. And I don't think this fact is yet fully recognized by investors today. Moving forward, this could continue to be an important tailwind to earnings.

This is the topic we will explore in this post.

Now I know for some investors, reading the words 'quality' and 'equity portfolio' and 'Fairfax' all in the same sentence will cause them to laugh uncontrollably out loud. If this is you, try and keep an open mind.

Let's start with the big picture.

A quick review: The 3 drivers of earning at Fairfax

- Insurance + fixed income investments + equity investments = earnings

- Earnings feeds ROE, which feeds into the multiple, which feeds into the stock price.

The important take-away for this post: the return on the equity investments is one of the key drivers of Fairfax's stock price.

Of interest, most investors today likely own Fairfax to get exposure to its insurance business and its fixed income portfolio. Its equity portfolio? Woof! (Not so much.)

20 years ago, investors owned Fairfax to get exposure to its equity and fixed income portfolios. Insurance? Woof!

The narrative at Fairfax has changed dramatically over the past 20 years. But what if the current narrative attached to the equity portfolio is wrong?

Why do we care about the 'quality' of the equity portfolio?

The 'quality' of Fairfax's equity portfolio will impact two things:

- The return achieved over time
- The volatility of the return achieved

Today investor's view Fairfax's equity portfolio as being of low quality (overall). They think it will deliver sub-par results. And be highly volatile. That is what is built into Fairfax's stock price today.

But what if both of these assumptions are wrong?

What if Fairfax's equity portfolio can be characterized as being 'high quality' today? And what if it also has lower volatility moving forward than in the past?

If true, this means investors are likely underestimating both the earnings potential of Fairfax and the multiple those earnings deserve.

How are we going to measure the quality of Fairfax's equity portfolio?

Let's open this big can of worms.

There is no standard definition of 'quality' that can be applied to all companies and industries - this is because every investor has their own definition. The problem with this type of analysis is most people come at it in a subjective way. Not an objective way. So, discussing it with others can be like trying wrestle with a greasy pig.

How do we remove our own biases from our assessment? Of course, we can't. Most people don't even want to. We all have our own investing framework - it's what allows us to function as investors. And it's the prism we use when we evaluate the management team at Fairfax.

When we look at a stock that Fairfax owns and we comment 'good' or 'bad' - well, often we are telling others more about our own mental model than about the actual holding or the management team at Fairfax.

What about volatility?

We can't really answer the 'quality' question without also discussing volatility.

Current finance theory states: low volatility = high quality. Potential return matters less.

We are going to look to Warren Buffett for guidance on this topic.

> "Gyrations in Berkshire's earnings don't bother us in the least: Charlie and I would much rather earn a lumpy 15% over time than a smooth 12%." *Warren Buffett BH 1996AR*

From our perspective, if volatility can be reasonably expected to deliver a higher rate of return over time, then we can ignore it from the quality discussion.

Let's circle back to our objective.

What methodology are we going to use in our analysis?

There are a couple of different methods we can use to help us answer the 'quality' question:

1. Quantitative - top down/follow the money - focus on the total return being delivered by the equity holdings (as a group).

2. Qualitative/quantitative - bottom up - look at each of the individual holdings and sum our findings into a total.

Quantitative - top down - measure of quality

> "For a value investor, price has to be the starting point. It has been demonstrated time and time again that no asset is so good that it can't become a bad investment if bought at too high a price. And there are few assets so bad that they can't be a good investment when bought cheap enough." *Howard Marks*

> "Price is what you pay. Value is what you get." *Warren Buffett*

Fairfax has stated they have a pre-tax return target for their equity investments of 15%.

Can we use this target as a core input into our 'quality' measure?

I think we can.

I come at the quality discussion in a very simple and selfish way. As an investor in Fairfax, when looking at the equity portfolio (in aggregate), what I want to know is 'will it deliver a return of 15% per year on average over the next couple of years?'

If the equity portfolio has a good chance of delivering a pre-tax return of:

- 15% per year = high quality
- 10% per year = average quality
- 5% per year = below average quality
- Negative return = dog with fleas

Do I really care what Fairfax owns? I kind of do. But what I care about much more is whether or not their portfolio of holdings can hit the stated 15% target.

What return would the equity portfolio have to deliver to hit 15%?

This number is easy to calculate. The equity portfolio had a market value of about $19 billion at March 31, 2023. (This uses carrying value. And values the FFH-TRS at its notional value).

- $19 billion x 15% = $2.85 billion

Can Fairfax's equity holdings deliver a pre-tax return of $2.85 billion in 2024?

We have already done this work. It is contained in our earnings estimate for 2024.

What do the numbers say?

- Dividends = $136 million
- Share of profit of associates = $900 million
- Non-insurance consolidated companies = $150 million
- Net gains on investments = $1.075 billion
- Realized one-time investment gains = $0
- Change in excess of FV over CV for associate and consolidated holdings = $200 million
- **Total = $2.461 billion**

Of course, the 6 buckets above do not capture everything. We will see large 'realized one-time investment gains' from Fairfax over time. These will be lumpy. The estimate for non-insurance consolidated companies also looks light at $150 million (when compared to the actual increase in intrinsic value).

Bottom line, if we add $400 million to 'realized one-time gains' we get to our 15% return target for the equity holdings as a group.

Based on our quantitative framework, can we conclude that Fairfax's equity portfolio is high quality? Yes, I think we can.

Let's now see what our second measure says.

Qualitative/quantitative - bottom up - measure of quality

Let's pivot with our analysis and now look at the individual holdings to see what we can learn. The 80-20 rule applies here. The big holdings are the key - if they perform well then Fairfax's total return for the equity portfolio will likely be good.

Context is also important. How did things look in 2017? How do things look today? Is the trend getting better? If so, how much better?

What are some questions we would want to ask when evaluating the individual holdings?

To help answer the 'quality' question when looking at the individual holdings, here are a few questions that come to mind:

- How good is the management team? Capital allocation?
- Is the balance sheet in good shape? Leverage?
- Is the company profitable? Is growth funded via retained earnings?
- What are the future prospects of the business?
- Other considerations (geography, political/economic situation etc)?
- What has Fairfax's return been since purchase?
- What is Fairfax's return potential looking forward?

Back in 2017, Fairfax had a number of large holdings that could be described as follows:

- Poorly managed.
- Stressed balance sheets.
- Not profitable.

- Poor prospects.
- Past returns for Fairfax were poor.
- Future return potential for Fairfax was poor.

Fast forward to 2024 and it is amazing the turnaround that has been executed by the team at Hamblin Watsa. Over the past 6 years the equity portfolio has seen a complete make-over. The many problems have largely been fixed (run-off, sold, restructured, merged). And capital allocation has been outstanding (new position purchased, buying more of existing positions etc).

Let's look at Fairfax's top 15 equity holdings:

Fairfax has a pretty concentrated equity portfolio. The top 15 positions represent 67% (2/3) of the total portfolio.

Fairfax - Equity Holdings Ranked by Size			Estimated			Dec 31 '23
March 31, 2024 (US$ millions)			Market			Carrying
Rank	Ticker	Holding	Value	Weight		Value
1	EUROB.AT	Eurobank	$2,436	12.7%		$2,099
2	FRFHF	Fairfax - TRSwaps	$2,119	11.1%	Top 3	
3	Private	Poseidon	$2,046	10.7%	34.5%	$1,706
4	FIH-U.TO	Fairfax India	$860	4.5%		$758
5	Private	Recipe	$684	3.6%		$684
6	Private	BDT Capital Partners	$683	3.6%		
7	THOMASCOC	Thomas Cook India	$599	3.1%		$201
8	Private	Grivalia Hospitality	$567	3.0%		$567
9	Private	ShawKwei & Partners	$504	2.6%	Top 10	
10	MU	Micron Tech	$461	2.4%	57.3%	
11	Private	EXCO Resources	$435	2.3%		$418
12	STLC.TO	Stelco	$429	2.2%		$292
13	EGS60121C0	Com Int Bank - Egypt	$362	1.9%		
14	OXY	Occidental Petroleum	$357	1.9%	Top 15	
15	MYTIL.AT	Mytilineos *	$355	1.9%	67.4%	
		Remainder	$6,229	33%		
		Total	**$19,127**			

1.) Eurobank

Fairfax's biggest holding today - by far - is Eurobank. It is also the best example of the renaissance that has happened in Fairfax's equity portfolio over the past 6 years.

Back in 2017, Greece was ruled by a far left government and its economy was a mess. Eurobank's balance sheet was not good (lots of non-performing loans).

But look at the transformation that has happened since:

- In 2019, Greece elected a center/right government who got to work reforming the Greek economy.
- Fairfax merged Grivalia Properties with Eurobank to improve its capital position.
- Eurobank's management team has always been solid - they aggressively shed non-performing loans and shifted capital from Serbia (selling their operations there) to Cyprus (buying Hellenic Bank).
- Greece just re-elected the center/right government so the pro-business reforms to the economy will continue. Greece is expected to have one of the top performing economies in Europe in the coming years.
- Bottom line, Eurobank is very well positioned today.

Was Eurobank a quality holding back in 2017? No. It and Greece were turnarounds with an unknown future. Is Eurobank a higher quality holding today than it was in 2017? The answer is an unambiguous yes. And we see this in the return it is delivering to Fairfax.

My guess is Eurobank was not earning much money back in 2017. Today? My current forecast is Eurobank will deliver $430 million in share of profit of associates to Fairfax in 2024. Fairfax's carrying value for Eurobank was $2.1 billion at December 31, 2023. This would deliver a return of 20.5% to Fairfax. Outstanding.

2.) Fairfax - Total Return Swap

Fairfax's second largest equity holding is the FFH-TRS. I include this holding in the 'equity' bucket. This holding did not exist is 2017. Fairfax did exit their equity hedge position in late 2016. But in 2017, Fairfax still had significant short positions in place on individual stocks. These positions were not closed out until 2020 and lost about $1 billion in total from 2017-2020.

The 'swing' here is enormous - losing $1 billion shorting something you clearly didn't understand very well - to making +$1 billion on something you understand exceptionally well (your own company). This has been great swing trade for Fairfax and its shareholders.

At December 31, 2023 the FFH-TRS position was valued at $1.8 billion. My current forecast is this investment will deliver gains of $500 million in 2024 ($250/share x 1.96 million shares). This would deliver a return of 28% to Fairfax.

3.) Poseidon

Of all of Fairfax's largest holdings, Poseidon was the biggest disappointment for me in 2023. The spike in interest rates seemed to catch management at Poseidon flat footed - and threw a wrench into expected profit growth. Was 2023 the low point for earnings? 2024 will be an important year for Poseidon.

My current forecast is Poseidon will deliver $160 million in share of profit of associates to Fairfax in 2024. Fairfax's carrying value for Poseidon was $1.7 billion at December 31, 2023. This would deliver a return of 9.5% to Fairfax. While below the hurdle rate of 15%, this return is far from being a catastrophe. And it is expected to improve in the coming years.

"Poseidon is expected to make net earnings in excess of $400 million in 2024 and $500 million in 2025. We carry our 43% ownership in Poseidon at $1.7 billion – 10x 2024 expected earnings or 8x 2025 expected earnings." *Fairfax 2023AR*

4.) Fairfax India

The key to this holding is BIAL. Is BIAL a higher quality asset today than it was in 2017? The answer is an unambiguous 'yes'. What BIAL has accomplished over the past 6 years is amazing. It added a second runway and a second terminal. It is perfectly positioned to grow rapidly in the coming years - the company's runway is long. The management team in place is very good.

In 2017, Fairfax owned 48% of BIAL - it did not yet have a control position. Today, Fairfax India owns 64% of BIAL (not adjusting for Anchorage), putting it firmly in control. Today, Fairfax also owns significantly more of Fairfax India (42%) than it did in 2017 (30%).

Modi appears he will be re-elected to a third consecutive term in India. This should cement India's economic pivot away from a socialist/Soviet model to a more capitalist model. Global capital is exiting China with India being a big beneficiary. India is projected to be the top performing economy in the world over the next decade and Fairfax India is well positioned to benefit from this strong tailwind.

Fairfax's carrying value for Fairfax India is comically low $768 million. A 15% return for Fairfax = $114 million. That is a lay-up.

5.) Recipe

I have been highly critical of Recipe in the past. Minority shareholders were used like a piggy bank to fund its aggressive and flawed roll-up of restaurant chains in Canada. However, there is a decent business there. Covid was a gut punch - it hit dine-in full service restaurants in Canada especially hard. Spiking inflation, taxes and minimum wages threw more sand in the wheels.

Bottom line, Recipe needed to restructure its operations. It got the process started back in 2021 - poorly performing locations/franchisees were closed and debt levels were materially reduced. But that is a hard thing to do as a publicly traded company. In 2022 Fairfax took Recipe private. Fairfax got a great price. And Recipe got the ability to complete its restructuring out of the public/shareholder spotlight.

Fairfax's carrying value for Recipe was $684 million at December 31, 2023. Free cash flow was US$92 million (C$125 million) in 2023 - back to pre-pandemic levels.

Price paid matters a lot. Fairfax was able to take Recipe private at a very good price. The company is delivering a solid return to Fairfax.

"Recipe, operating in its first full normal year since the pandemic, achieved record system sales in 2023. Sales increased to Cdn$3.7 billion, up 9% from 2022 and 5.6% higher than 2019. Margins also increased by 20 basis points, or 15% in dollars terms, over 2022. Impressively, the company

delivered over Cdn$150 million in free cash flow and reduced overall leverage to less than 2.5x. Frank Hennessey, Ken Grondin and his team are focused on continuing to improve the overall margin rate while emphasizing top line growth. Expansion is underway in the United States and India markets as well as organic growth in Canada driven by new restaurants. The company will also be launching new products in its already sizable consumer packaged goods business (where Recipe's brands are sold in grocery stores). Recipe is carried at 8x enterprise value to EBITDA on our balance sheet or 10x free cash flow." *Fairfax 2023AR*

The next 5 holdings

6.) BDT Capital Partners (private) - this has been an outstanding long-term holding for Fairfax.

Who are they? "BDT & MSD Partners is a merchant bank with an advisory and investment platform built to serve the distinct needs of business owners and strategic, long-term investors. We are distinguished by our decades of experience advising at the intersection of founders, families, and businesses, as well as by our differentiated capital base and culture of aligned investing." https://bdtmsd.com

"We continue to invest with Byron Trott through various BDT Capital Funds. Since 2009, we have invested $978 million, have received $979 million in distributions and still have investments with a year-end market value of $683 million. Byron and his team have generated fantastic long-term returns for Fairfax, and we very much look forward to our continued partnership." *Fairfax 2023AR*

7.) Thomas Cook India (public) - management implemented an aggressive cost cutting plan during Covid. In 2023, people in India started travelling again and revenue at TCIC spiked higher. With a structurally lower cost base, profits have surged. TCIC was a star performer for Fairfax in 2023 - its stock has increased 140% over the past 15 months.

"Thomas Cook's business rebounded in 2023 as travel recovered, with revenues up and a pre-tax profit of $34 million, up from a loss of $2 million last year. Thomas Cook stock price was up 90% in the Indian stock market in 2023. We sold 40 million shares at $1.67 to repay the $60 million we invested last year in the company. Future prospects for Thomas Cook look excellent in the years to come." *Fairfax 2023AR*

8.) Grivalia Hospitality (private) - this holding gets an 'incomplete' from me today. It is a bet on the jockey. George Chryssikos has had the Midas touch for Fairfax in Greece - making them +$1 billion so far. I am inclined to give Fairfax the benefit of the doubt on this one - my guess is it works out ok. And it could be great. We should know much more in 2024 as more resorts come on line.

"Grivalia Hospitality, under George Chryssikos, had a strong year of execution as two assets, including its largest, opened for business. The One & Only resort in Athens is a flagship in ultra-luxury hospitality and we are the proud owners. If you haven't booked your summer vacation yet – you know what to do! 2024 will see one additional asset come into operation – which will take the operating portfolio to five. These include Amanzoe in Porto Heli, ON Residence in Thessaloniki,

Avant Mar in Paros, One & Only and 91 Athens Riviera in Athens. Focus now turns to operational and service excellence for these resorts with Greece forecast to receive a record number of tourists in 2024. George has another five high end hotels in development over the next few years. George has an outstanding track record in real estate and as I said last year, he has already made us $1 billion! We expect George to repeat that accomplishment with Grivalia Hospitality over time! At year end we carried Grivalia at €513 million for our 85% stake." *Fairfax 2023AR*

9.) ShawKwei & Partners (private) - this holding has been a solid long-term performer for Fairfax. The fact Fairfax is adding new capital suggests they like the prospects.

"Since 2008 we have invested with founder Kyle Shaw and his private equity firm ShawKwei & Partners. ShawKwei takes significant stakes in middle-market industrial, manufacturing and service companies across Asia, partnering with management to improve their businesses. We have invested $536 million in two funds (with a commitment to invest an additional $64 million), have received cash distributions of $217 million and have a remaining value of $504 million at year-end. The returns to date are primarily from our investment in the 2010 vintage fund, which, though decreasing 8.8% in value in 2023, has generated a 12% compound annual return since 2010. The 2017 vintage fund, which has drawn about 84% of committed capital to date, increased 23.1% in value in 2023 but has a compound annual return of 3.5% since inception. We expect Kyle to make higher returns on monetization of his major assets." *Fairfax 2023AR*

10.) Micron Technologies (public) - Fairfax materially increased their position in Micron in Q3 of 2022; likely around $60/share. They sold most of their position in Q1, 2024 (at around $104/share). Outstanding return over 7 quarters.

The next 5 holdings

11.) EXCO Resources (private): This holding has been a solid performer for Fairfax in recent years. Consolidation seems to be a big trend in oil and gas. My guess is the company gets taken out at some point in the next year or two.

"In 2023, Exco Resources (a U.S. oil and gas producer) repurchased 8% of its shares. This increased Fairfax's ownership of Exco from 44% to 48%. After year end, Exco repurchased another 2% of its shares, increasing our ownership to 49%. Both transactions occurred at steep discounts to intrinsic value. Sometimes, as T. Boone Pickens noted, "it is cheaper to drill for oil (and gas!!) on the stock exchange than it is to drill directly". Of course, Exco also did plenty of drilling. In 2023, Exco added more than twice as much to its reserves as it extracted through production. With weakness in commodity prices, the present value of proved reserves dropped. However, production volumes increased 3.2% year over year. Exco is well-positioned to navigate commodity price volatility. It has a strong balance sheet, nimble operations and decisive leadership. Chairman John Wilder and CEO Hal Hickey lead Exco. Fairfax's Wendy Teramoto and Peter Furlan are on its Board. Fairfax is well served by our long-term partners, John and Hal, who transformed Exco into a resilient oil and gas company. Exco is carried on our balance sheet at $418 million or $18.24 per share, approximately 3x net income in 2023, an increase from $12.59 per share last year, due to our share of their 2023 earnings of $5.65 per share." *Fairfax 2023AR*

12.) Stelco (public): In late 2018, Fairfax paid $193 million for 14.7% of Stelco. Since then Stelco has paid Fairfax $106 million in dividends. Over the past 3 years Stelco has also repurchased 38% of all shares outstanding - so Fairfax now owns 23.6% of Stelco. The CEO of Stelco, Alan Kestenbaum, is a rock star - even Billy Idol would agree. When the next bull market hits the steel market, Stelco and Fairfax are going to make an absolute killing; remember, Fairfax now owns 23.6% of the company. There is also a good chance Stelco gets taken out at a premium valuation by a bigger player.
When Fairfax announced their Stelco purchase in late 2018 I hated it. At the time, it screamed 'old Fairfax' to me. Boy was I wrong. But I have since updated my view of the holding and I love it today. Facts are facts.

But talk to Fairfax detractors - and my guess is they still view Stelco as a shitty investment. It is a commodity producer after all! It cracks me up when I hear the detractors talk about Fairfax's equity holdings. They usually have no idea what they are talking about. But boy do they ever have a lot of conviction when they express their views.

"In a year of volatile steel prices, Stelco performed well, highlighting its competitive cost structure. Stelco's talented team – led by Alan Kestenbaum, Sujit Sanyal, and Paul Scherzer – continues to be excellent stewards of the business with a keen focus on creating shareholder value. We believe that Stelco owns the best-in-class blast furnace assets in North America, which is highlighted by its industry leading margins. The company's Lake Erie Works facility has had recent upgrades to its blast furnace, coke battery, a newly constructed co-generation facility and a new pig iron caster. Nippon recently announced an agreement to acquire US Steel at a multiple of 7.8x 2024 EBITDA, a significant premium to Stelco's trading multiple. We believe the US Steel acquisition highlights the value of blast furnace operations. Stelco continues to have significant net cash on its balance sheet, providing management with flexibility to take advantage of both organic and inorganic growth opportunities. The company rewarded shareholders with a Cdn$3 per share special dividend in addition to its Cdn$1.68 per share regular dividend in 2023. Stelco has raised its regular dividend for 2024 to Cdn$2.00 per share. We believe Stelco has a bright future under Alan Kestenbaum's leadership. Stelco is carried on our books at $22.44 per share versus a market price of $37.84 per share." *Fairfax 2023AR*

13.) Commercial International Bank (public): This is a very well run bank. Unfortunately, perpetual currency devaluations in Egypt have made this a tough investment for Fairfax. Fairfax invested $330 million in 2014. As of March 31, 2024, their position was valued at $362 million. Over the past decade, the opportunity cost to Fairfax from this investment has been significant. This holding is one of the last 'old Fairfax' positions remaining at Fairfax (that is a decent size).

"Commercial International Bank (CIB) results were very strong in 2023 with an ROE of over 40%, net interest margin of almost 8% and loan-loss provision coverage ratio of approximately 230%. There is significant hidden value in the build-up of provisions on the balance sheet which if adjusted for, reduces the price-to-book ratio well below 2x. Since 2014, the bank has continued to compound book value per share and EPS by nearly 20% per annum. The key driver of value to Fairfax and other foreign investors in CIB is the stability of the Egyptian Pound. Fairfax invested the vast majority of its position in CIB in the spring of 2014 when the market cap was less than $5 billion, at

exchange rates at the time. During that same time, net profit at CIB in USD terms (at current exchange rates) has more than doubled and the market cap stands at just $7 billion with an estimated 2024 price to earnings ratio of 6x. By comparison, in local currency, the market cap has increased over five times! The Egyptian government has begun a massive asset disposal program to address the country's high sovereign debt. Execution will be critical to ensure foreign investors more than just tread water on their investments. Hisham Ezz Al-Arab, the Founder of the modern CIB Bank, came back as Chairman in December 2022." *Fairfax 2023AR*

14.) Occidental Petroleum (public): Initiated in 2022, this is a relatively new position for Fairfax. They increased it meaningfully in 2023. Their average cost is likely around $60/share. Stock is trading at about $60. This holding looks well positioned. And it has Buffett's seal of approval.

15.) Mytilineos (public): a global industrial and energy company covering two business Sectors: Energy and Metallurgy. Fairfax initiated their position in Mytilineos in 2012. They more than doubled their position in late 2022 at €18.50/share. Stock is trading at about €35. This has turned into another outstanding investment for Fairfax.

Summary

After all that what have we learned?

Can we conclude that Fairfax's collection of equity holdings is higher quality than what they were in 2017? Yes, I think we can. And by a lot.

Fairfax has been hard at work the past 6 years improving the overall quality of its basket of equity holdings. It takes years for that work to show up in reported results. And that is what we are now seeing. We are just now starting to learn what the true earnings power of the equity portfolio is today. Given the nature of the holdings (skewed to cyclicals) the returns will have some volatility.

Can we also call the collective holdings 'high quality'? Given they look poised to deliver a 15% return, yes, I think we can.

And my guess is Fairfax is not done with its move up the quality ladder with its collection of equity holdings. This bodes well for higher future returns.

Index investors, the S&P/TSX 60 and Fairfax

December 19, 2025

Hat tip: This post was inspired by @SafetyinNumbers many thoughtful posts on this topic over the past two years.

Index investing: a structural shift in markets

Financial markets are constantly evolving. One of the most important changes over the past 30 years has been the rapid adoption of index investing.

How exactly is index investing changing how the stock market works?

That is where things get interesting.

The short answer is that we do not really know—at least not yet. In many ways, we are in the middle of a large, real-time science experiment. Index investing has grown so large that it is almost certainly influencing stock prices and valuations, but the full effects will only become clear with the benefit of hindsight.

We will likely have much better answers in another decade or two. Unfortunately, that does not help us much today.

So what does all of this have to do with Fairfax Financial?

Fairfax and the S&P/TSX 60

On December 5, 2025, it was announced that Fairfax Financial would be added to the S&P/TSX 60 Index, Canada's flagship large-cap index, effective December 22, 2025.

This raises a natural and important question for investors:

Does index inclusion impact a company's stock price and valuation?

That is the question explored in this post.

A different lens: supply and demand

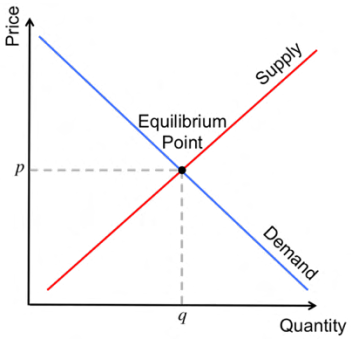
To understand the potential impact of index investing, it helps to step outside our usual analytical comfort zone. Instead of focusing on fundamentals, earnings, and valuation, we will look at stock prices through the lens of supply and demand.

From Econ 101, we know:

- Supply is the amount of something available for sale
- Demand is the amount people want to buy
- Price is the clearing mechanism between buyers and sellers

If demand exceeds supply, prices should rise.
If supply exceeds demand, prices should fall—assuming markets function reasonably well.

This relationship is often illustrated with a simple supply-and-demand graph.



The same logic applies to stocks.

At any moment, a stock's price represents an equilibrium point where buyers and sellers agree.

Shares outstanding, float, and equilibrium

If demand for a company's shares rises faster than supply, the stock price should increase. If supply rises faster than demand, the price should fall.

Index investing affects this balance in two distinct ways:

1. The ongoing impact of being in an index
2. The one-time impact of being added to an index

Let's examine each.

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1. What happens when a stock is in a major index?

Growing demand for shares

ETF and index investing has grown steadily for three decades and is now fully mainstream—particularly in North America. This growth appears structural rather than cyclical.
As assets flow into index funds, those funds must continuously buy shares of companies in major indexes such as the S&P 500 or the S&P/TSX 60. This creates a steady, ongoing source of demand.

Declining effective supply (float)

Index funds are not market timers. And they are largely buy-and-hold investors.

As long as a company remains in the index and maintains its weighting, index funds tend to hold the shares indefinitely. In practical terms, this removes shares from the trading float, reducing the supply available to other investors.

Price-insensitive buyers

Perhaps most importantly, index funds are largely price agnostic. Valuation does not matter; weighting does.

This matters because price is supposed to be the market's clearing mechanism. But for this growing pool of capital, price plays a limited role.

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2. What happens when a stock is added to an index?

Major indexes typically rebalance quarterly. Winners are added; laggards are removed.

When a stock is added, index funds must buy shares to reach the appropriate weighting. This creates a one-time surge in demand, again from largely price-insensitive buyers.

Summary: index effects on supply and demand

Short term (index inclusion):

- One-time spike in demand – price insensitive
- Reduction in effective float (supply)

Long term (index membership):

- Ongoing, steady demand – price insensitive
- Continued reduction in float (supply)

Index investing is growing rapidly, and its influence on markets continues to increase. All else equal, this setup should act as a tailwind for stock prices over time.

How large is the effect?

That is the million-dollar question. We do not know. But it is likely larger than many investors appreciate today.

Additional accelerants

Let's expand the analysis slightly.

Share buybacks

What happens when a company is aggressively buying back its own shares at the same time index demand is increasing?

Supply shrinks further.

All else equal, this should push prices higher.

Quantitative and momentum investing

Another major market shift over the past 30 years has been the rise of quantitative and momentum strategies.

This crowd loves stocks that are already going up—and that keep going up.

Not coincidentally, stocks added to major indexes are typically those that have already performed well and grown in market capitalization.

Despite being labeled "passive," index investing has strong momentum-like characteristics:

- Winners are added
- Losers are removed
- New flows disproportionately favor the largest, best-performing stocks

When index investors and momentum investors are buying simultaneously—and the company itself is buying back stock—the law of supply and demand suggests upward pressure on price. Especially if the company is performing well (improving fundamentals and growing earnings). This is how multiple expansion can occur, sometimes over many years.

From value to quality

Another powerful shift occurs when a stock transitions from being perceived as a value play to a quality compounder. As new investor cohorts become interested, demand broadens further.

The "perfect" setup

The ideal conditions for sustained stock price appreciation look something like this:

High and growing demand from:

- Value investors
- Index investors
- Momentum investors

- Quality-focused investors

Shrinking supply due to:

- Index fund ownership
- Company share buybacks

This can create a virtuous circle:

Higher prices → higher market cap → increased index and momentum demand → higher prices.

These cycles can take years to fully play out.

Bringing it back to Fairfax

On December 5, 2025, it was announced that Fairfax Financial would be added to the S&P/TSX 60 Index, effective December 22, 2025.

Fairfax was previously the largest Canadian public company not included in the index, despite ranking among the top companies by market capitalization.

Are we seeing any impact on Fairfax's share price?

Since December 5, 2025, Fairfax's share price has increased by 9%. While many factors influence short-term price movements, it appears index inclusion is having a positive impact.

Fairfax 2025	Share Price	
Dec 5	$1,679	
Dec 19	$1,830	
Change	**$151**	**9%**

Final thought

Index investing has quietly become one of the most powerful forces in financial markets. Its effects are subtle, cumulative, and often underestimated.

Index inclusion:

- Increases demand for shares
- Reduces effective float (supply)
- Introduces a new, long-term class of price-insensitive buyers

For Fairfax shareholders, inclusion in the S&P/TSX 60 is another structural tailwind for the stock - and one that could persist for years.

Fairfax's Annual General Meeting - Should Investors Attend?

April 10, 2026

Introduction

Fairfax's annual general meeting (AGM) will be held on April 16, 2026 in Toronto, Ontario.

I've attended the past three meetings. I initially went to better understand the business. Now I go as just as much to see and spend time with friends.

Fairfax has a first-class group of shareholders - wicked smart and super nice. The "super nice" part has been the bigger surprise for me. One of the interesting things I have learned from attending the AGM (and the various activities during the week) is I am not a freak. I have been able to meet a large group of people who are kind of wired just like me - people who love the art/craft of investing.

This note outlines what the AGM offers, where the real value lies, and how to think about whether it's worth attending.

Where to Find Information on the 2026 Event?

The AGM is available both in person and via live stream.

Fairfax (including details of how to attend virtually): https://www.fairfax.ca/press-releases/fairfax-announces-hybrid-annual-shareholders-meeting-details-april-6-2026/

The Corner of Berkshire and Fairfax: https://thecobf.com/forum/topic/21593-2026-annual-shareholders-meeting/#findComment-652738

Fairfax India (including details of how to attend virtually): https://www.fairfaxindia.ca/press-releases/fairfax-india-announces-hybrid-annual-shareholders-meeting-details-april-6-2026/

The Meeting Itself

At its core, the AGM offers direct access to management.

You'll hear from:

- Prem Watsa (CEO) and Peter Clarke (COO)
- Leaders across the P&C insurance subsidiaries
- Executives from key equity holdings

The format is straightforward:

- A brief formal business meeting
- A presentation by Prem

- An extended Q&A session (typically ~2 hours)

The Q&A is useful. It is candid, wide-ranging, and often reveals how management is actually thinking—not just what is written in reports.

But the real value emerges over time. Attend multiple years and you start to see patterns:

- How management thinks about risk
- How capital allocation evolves
- Whether narrative and results align

That kind of pattern recognition doesn't come from reading filings alone.

Fairfax's 2025 AGM presentation

https://www.fairfax.ca/wp-content/uploads/2025/04/Fairfax_AGM_2025.pdf

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Scuttlebutt: A Differentiated Information Edge

Arrive early. Stay late.

The hour before the meeting is one of the most valuable parts of the day. Senior executives from across Fairfax's global operations are available for informal conversation.

This allows you to:

- Conduct real scuttlebutt
- Ask direct, unscripted questions
- Cross-check what you've read vs. what you hear

At the end of the meeting, food and beverages are served for lunch. Lots of people mingle afterwards for an hour or two. Conversations continue.

For a serious investor, this is a genuine edge—qualitative, nuanced, and hard to replicate.

Fairfax India: Worth the Extra Day

The Fairfax India AGM (held the day before) is smaller but equally valuable. It follows a similar format to the Fairfax AGM (go early… stay late).

Hosted by Ben Watsa (Chairman) and Gopal Soundarajan (CEO), it provides:

- Direct access to management of underlying holdings
- A more focused, intimate setting
- High-quality insight into the stock portfolio

If you're making the trip, it's worth attending both.

Fairfax India's 2025 AGM presentation

https://www.fairfaxindia.ca/wp-content/uploads/2025/04/Fairfax_India_AGM_2025.pdf

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The Shareholder Base

One of Fairfax's underappreciated assets is its shareholders.

They tend to be:

- Long-term oriented
- Curious and engaged
- Willing to share ideas

Many travel from across Canada and internationally (as far away as Australia). Over time, the AGM becomes less about the formal meeting and more about the relationships built around it.

A number of informal, investor-organized events take place throughout the week. This is where much of the real interaction happens.

The Broader "Fairfax Week"

The AGM is just one piece of a larger ecosystem.

During the week, there are:

- Informal meetups
- Structured investor events
- Ticketed dinners

From a cost perspective, these are minor relative to the overall trip. The real question is whether the time is worth it.

In my experience, it has been—consistently.

Norm (one of those first-class people I mentioned earlier) puts together a summary each year:

- https://stingyinvestor.com/FairfaxWeek2026.html

Fairfax Week 2026

Let me know about any additional events, changes, or cancellations.

April 13 (Monday)

The Ben Graham Centre's International MBA Stock Picking Competition
Time: 8:20 AM to 12.15 PM
Location: Ivey Donald K. Johnson Centre, 130 King St W, Toronto, Ontario, Canada
Info: Details

The Early Bird
Time: 6:00 PM start
Location: P.J. O'Brien Irish Pub & Restaurant, 39 Colborne St, Toronto, ON M5E 1E3
Info: Drop by for food and drink. No reservation needed.

April 14 (Tuesday)

The Ben Graham Centre's 2026 Value Investing Conference
Time: 7:45 AM to 4:45 PM
Location: Ritz Carlton, Main Ballroom, 181 Wellington St. W., Toronto, Ontario, Canada
Info: Details

YYX Toronto Value Symposium
Time: 8:30 AM - 4:00 PM (Breakfast/Lunch included)
Location: The National Club, 303 Bay St., Toronto, Ontario, Canada
Info: Details

Ben Graham Dinner
Time: 6:30 PM
Location: Near Union Station
Info: RSVP Required

April 15 (Wednesday)

The FFH India AGM
Time: 9:30 AM
Location: The Ritz-Carlton Hotel, The Ritz-Carlton Ballroom, 181 Wellington Street West, Toronto, Ontario, Canada (and online)

Helios Fairfax Partners Presentation
Time: 2:30 PM
Location: The Ritz-Carlton Hotel, 181 Wellington Street West, Toronto, Ontario, Canada (and online)

17th Annual Fairfax Financial Shareholder Dinner
Location: The Ritz-Carlton Hotel, 181 Wellington Street West, Toronto, Ontario, Canada
Info: Ticket Required

April 16 (Thursday)

The FFH AGM
Time: 9:30 AM to 1:00 PM
Location: Roy Thomson Hall, 60 Simcoe Street, Toronto, Ontario, Canada (and online)

A Practical Note

On the Wednesday before the AGM, there are typically two dinners:

- A Fairfax-hosted, invite-only event
- The CoBF shareholder charity dinner (open, ticketed, usually sold out)
    - Tickets: https://2026_COBF-FFH_Shareholder_Dinner.eventbrite.com

Some years they're held at the same hotel. Don't mix them up.

Summary: Why Attend?

Fairfax's AGM is not just a corporate event—it is an information ecosystem.

For investors, it offers three clear advantages:

1. Direct Access to Management
   Extended Q&A and repeated exposure build a deeper understanding of leadership, culture and strategy.
2. Scuttlebutt and Qualitative Insight
   Informal interactions with executives provide valuable information.
3. High-Quality Investor Network
   The shareholder base itself is a valuable asset—serious, intellectually engaged, long-term oriented, and collaborative.

These benefits compound. The more you attend, the more valuable it becomes.

Final Thoughts

It has been another wonderful year for Fairfax and their shareholders. Being able to celebrate at the AGM with friends what has been unfolding at Fairfax these past couple of years has been priceless. And my view continues to be that Fairfax still has many good years in front of it - the company looks to me like it is just entering its prime.

If you're considering attending the AGM, go. Engage. Ask questions. Introduce yourself.

The investment insight is valuable. The relationships are what bring you back.

Looking back, deciding to attend was one of the better decisions I've made in recent years.

Will Fairfax split its stock?

On November 21, 2025, Fairfax's stock closed at $1,703 (C$2,403). Each year at the AGM, Prem is usually asked if Fairfax will be splitting its stock. The answer is always the same… "No."

Why not?

Another company that has never done a stock split is Berkshire Hathaway. Warren Buffett provided a long explanation in his 1983 shareholder letter. It is attached below. I include it because my guess is Fairfax has a similar perspective.

Warren Buffett's 1983 Shareholder Letter (published March 1984)

Stock Splits and Stock Activity

We often are asked why Berkshire does not split its stock. The assumption behind this question usually appears to be that a split would be a pro-shareholder action. We disagree. Let me tell you why.

One of our goals is to have Berkshire Hathaway stock sell at a price rationally related to its intrinsic business value. (But note "rationally related", not "identical": if well-regarded companies are generally selling in the market at large discounts from value, Berkshire might well be priced similarly.) The key to a rational stock price is rational shareholders, both current and prospective.

If the holders of a company's stock and/or the prospective buyers attracted to it are prone to make irrational or emotion-based decisions, some pretty silly stock prices are going to appear periodically. Manic-depressive personalities produce manic-depressive valuations. Such aberrations may help us in buying and selling the stocks of other companies. But we think it is in both your interest and ours to minimize their occurrence in the market for Berkshire.

To obtain only high-quality shareholders is no cinch. Mrs. Astor could select her 400, but anyone can buy any stock. Entering members of a shareholder "club" cannot be screened for intellectual capacity, emotional stability, moral sensitivity or acceptable dress. Shareholder eugenics, therefore, might appear to be a hopeless undertaking.

In large part, however, we feel that high quality ownership can be attracted and maintained if we consistently communicate our business and ownership philosophy - *along with no other conflicting messages* - and then let self-selection follow its course. For example, self-selection will draw a far different crowd to a musical event advertised as an opera than one advertised as a rock concert even though anyone can buy a ticket to either.

Through our policies and communications - our "advertisements" - we try to attract investors who will understand our operations, attitudes and expectations. (And, fully as important, we try to dissuade those who won't.) We want those who think of themselves as business owners and invest in companies with the intention of staying a long time. And, we want those who keep their eyes focused on business results, not market prices.

Investors possessing those characteristics are in a small minority, but we have an exceptional collection of them. I believe well over 90% - probably over 95% - of our shares are held by those who were shareholders of Berkshire or Blue Chip five years ago. And I would guess that over 95% of our shares are held by investors for whom the holding is at least double the size of their next largest. Among companies with at least several thousand public shareholders and more than $1 billion of market value, we are almost certainly the leader in the degree to which our shareholders think and act like owners. Upgrading a shareholder group that possesses these characteristics is not easy.

Were we to split the stock or take other actions focusing on stock price rather than business value, we would attract an entering class of buyers inferior to the exiting class of sellers. At $1300, there are very few investors who can't afford a Berkshire share. Would a potential one-share purchaser be better off if we split 100 for 1 so he could buy 100 shares? Those who think so and who would buy the stock because of the split or in anticipation of one would definitely downgrade the quality of our present shareholder group. (Could we really improve our shareholder group by trading some of our present clear-thinking members for impressionable new ones who, preferring paper to value, feel wealthier with nine $10 bills than with one $100 bill?) People who buy for non-value reasons are likely to sell for non-value reasons. Their presence in the picture will accentuate erratic price swings unrelated to underlying business developments.

We will try to avoid policies that attract buyers with a short-term focus on our stock price and try to follow policies that attract informed long-term investors focusing on business values. just as you purchased your Berkshire shares in a market populated by rational informed investors, you deserve a chance to sell - should you ever want to - in the same kind of market. We will work to keep it in existence.

One of the ironies of the stock market is the emphasis on activity. Brokers, using terms such as "marketability" and "liquidity", sing the praises of companies with high share turnover (those who cannot fill your pocket will confidently fill your ear). But investors should understand that what is good for the croupier is not good for the customer. A hyperactive stock market is the pickpocket of enterprise…

… (We are aware of the pie-expanding argument that says that such activities improve the rationality of the capital allocation process. We think that this argument is specious and that, on balance, hyperactive equity markets subvert rational capital allocation and act as pie shrinkers. Adam Smith felt that all noncollusive acts in a free market were guided by an invisible hand that led an economy to maximum progress; our view is that casino-type markets and hair-trigger investment management act as an invisible foot that trips up and slows down a forward-moving economy.)

… Meanwhile, true turnover in Berkshire stock (excluding inter-dealer transactions, gifts and bequests) probably runs 3% per year. Thus our owners, in aggregate, are paying perhaps 6/100 of 1% of Berkshire's market value annually for transfer privileges. By this very rough estimate, that's $900,000 - not a small cost, but far less than average. Splitting the stock would increase that cost, downgrade the quality of our shareholder population, and encourage a market price less consistently related to intrinsic business value. We see no offsetting advantages.

Rating Agencies Upgrade the Credit Ratings of Fairfax & Re/Insurance Subs

June 11, 2025

S&P Global upgraded the credit ratings of both Fairfax and some of its large P/C insurance subs.

Better credit ratings result in lower borrowing costs (for Fairfax and its P/C insurance subsidiaries).

Fairfax Financial Holdings Ltd.'s Re/Insurance Subs Upgraded To 'AA-' On Strengthened Capitalization; Outlook Stable

https://alliedworldinsurance.com/wp-content/uploads/sites/2/2025/06/SP_Fairfax-Financial-Holdings-Ltd.s-Re-Insurance-Subs-upgraded-to-AA-_-Jun-11-2025.pdf

Overview

- Fairfax Financial Holdings Ltd. and its re/insurance operating subsidiaries (collectively, Fairfax) have built a very strong and globally diverse competitive position through organic growth and strategic acquisitions, while leveraging favorable re/insurance pricing.
- Capitalization has strengthened and is expected to remain redundant at the 99.95% confidence level through 2027, driven by improved earnings and capital management.
- As a result, we raised our ratings on Fairfax's core re/insurance subsidiaries to 'AA-' from 'A+' and on the holding company, Fairfax Financial Holdings Ltd., to 'A-' from 'BBB+'.
- The stable outlook reflects our expectations of strong earnings, driven by underwriting and investment activities, while maintaining very strong capitalization.

May 22, 2025

Fairfax has had its credit ratings upgraded not just once but twice in the past two years by AM Best (first on May 3, 2023 and then again on May 22, 2025). AM Best is a ratings agency that specializes in the P/C insurance industry - AM Best is the gold standard. S&P Global also upgraded Fairfax's credit ratings on May 31, 2024.

Why is this happening?

Fairfax continues to deliver:

- Strong earnings.
- Significant interest and dividend income.
- Strong underwriting results at the P/C insurance subsidiaries.

This is further confirmation that the remarkable turnaround that has happened at Fairfax over the past 4 years is the real deal – it is not a mirage.
Prem's comments about the ratings agencies from Fairfax's 2024AR.

"It was another year with positive movements in our ratings. Standard & Poor's upgraded our financial strength ratings and debt ratings to A+ and BBB+ and kept us on positive outlook. AM Best and Fitch placed our debt ratings on positive outlook while Moody's and DBRS affirmed our ratings. We look to continue this momentum through the strong performance of our insurance and reinsurance companies and the overall financial strength of Fairfax." *Prem Watsa – Fairfax 2024AR*

Rating agencies are a critical part of the P/C insurance ecosystem.

Rating agencies supply two types of credit ratings:

1. Issuer credit rating (ICR): "an independent opinion of an entity's ability to meet its ongoing financial obligations" for unsecured debt and preferred equity.
    - Matters to bond holders.
    - The better the rating the lower the interest rate paid on debt.

2. Financial strength rating (FSR): "an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations."
    - Matters to insurance policy holders.
    - The better the rating the greater the business opportunity (generally) for the insurance company.
    - Only insurance subsidiaries get an FSR rating. Holding companies like Fairfax do not get a FSR rating.

Who uses the credit ratings provided by the rating agencies?

Pretty much everyone in the P/C ecosystem:

- Participants looking to buy insurance: consumers and brokers
- Investors
- Lenders – rating impacts cost of capital
- Insurance companies
    - when measuring counterparty risk
    - when choosing investments
- Regulators

Resource to better understand rating agencies and their role

SOA Research Institute: Rating Agencies Perspectives on Insurance Company Capital
A look at the impact ratings agencies have on insurers' capital management.

https://www.soa.org/4a506a/globalassets/assets/files/resources/research-report/2023/rating-agency-perspectives.pdf

AM Best Upgrades Fairfax and Allied World – May 22, 2025

AM Best Upgrades Credit Ratings of Fairfax Financial Holdings Limited, Its Subsidiaries and Allied World Assurance Company Holdings, Ltd.

https://news.ambest.com/PR/PressContent.aspx?refnum=36046&altsrc=2

AM Best has upgraded the Long-Term Issuer Credit Rating (Long-Term ICR) to "a-" (Excellent) from "bbb+" (Good) and upgraded the Long-Term Issue Credit Ratings (Long-Term IR) on the unsecured debt and preferred equity of Fairfax Financial Holdings Limited (Fairfax) (Toronto, Canada) [TSX: FFH]. In addition, AM Best has upgraded the Long-Term ICRs to "a-" (Excellent) from "bbb+" (Good) of Fairfax (US) Inc. (Delaware) and Zenith National Insurance Corp. (headquartered in Woodland Hills, CA), both of which are indirectly, wholly owned downstream holding companies of Fairfax. The outlook of these Credit Ratings (ratings) has been revised to stable from positive. (See below for a detailed listing of Long-Term IRs.)

Fairfax's rating upgrades reflect the group's improved earnings in recent years and prospectively. In 2022, Fairfax deployed significant cash assets into higher-yielding fixed-income instruments, which bolstered reliable streams of dividend and interest income. At the same time, the group's underwriting performance recorded record profits despite elevated catastrophe activity. These enhanced returns have allowed the group to grow its capital base and further expand its projected run-rate for operating earnings in future cycles.

At the same time, AM Best has upgraded the Financial Strength Rating (FSR) to A+ (Superior) from A (Excellent) and the Long-Term ICRs to "aa-" (Superior) from "a+" (Excellent) of the operating affiliates of Allied World Assurance Company Holdings, Ltd.'s (Allied World Holdings) (Bermuda), collectively referred to as Allied World. Concurrently, AM Best has upgraded the Long-Term ICRs to "a-" (Excellent) from "bbb+" (Good) of Allied World Holdings and its downstream holding company, Allied World Assurance Company Holdings I, Ltd (Bermuda). AM Best also has revised the outlooks to stable from positive. (See below for a detailed listing of the companies and ratings.)

The ratings of Allied World reflect its balance sheet strength, which AM Best assesses as strongest, as well as its strong operating performance, favorable business profile and appropriate enterprise risk management.

Allied World's rating upgrades stem from a revision of the operating performance assessment to strong from adequate. Allied World has benefited from improved underwriting ratios, as well as stronger streams of dividend and interest income in recent years. AM Best views Allied World's solid recent and prospective underwriting results as reflective of sound cycle management strategies that have reduced volatility, while at the same time steadily increasing underwriting income.

AM Best Upgrades Odyssey Group – July 6, 2023

AM Best Upgrades Credit Ratings of Odyssey Group Holdings, Inc.'s Members

https://www.businesswire.com/news/home/20230706093283/en/AM-Best-Upgrades-Credit-Ratings-of-Odyssey-Group-Holdings-Inc.'s-Members

AM Best Upgrades Fairfax and Allied World – May 3, 2023

AM Best Upgrades Issuer Credit Ratings of Fairfax Financial Holdings Limited, Its Subsidiaries and Allied World Assurance Company Holdings, Ltd.

https://www.businesswire.com/news/home/20230503005889/en/AM-Best-Upgrades-Issuer-Credit-Ratings-of-Fairfax-Financial-Holdings-Limited-Its-Subsidiaries-and-Allied-World-Assurance-Company-Holdings-Ltd

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S&P Global Upgrades Fairfax Financial – May 31, 2024

S&P Global: Fairfax Financial Holdings' Re/Insurance Subs Upgraded To 'A+'

https://disclosure.spglobal.com/ratings/pt/regulatory/article/-/view/type/HTML/id/3188808

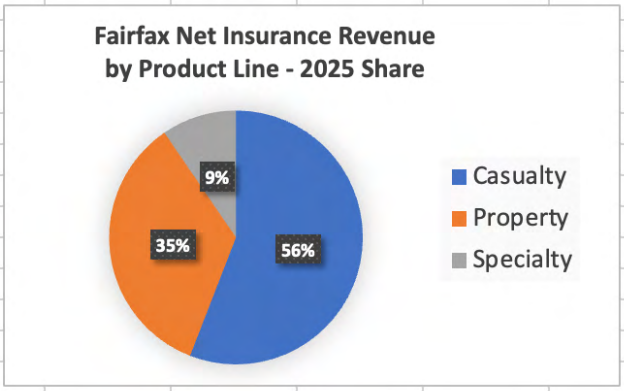
Chapter 13: Insurance

Overview of Fairfax's P/C insurance business

Net insurance revenue is a measure of underwriting activity that is calculated as insurance revenue less cost of reinsurance. From page 148 of Fairfax's 2025AR.

Product Line: Net insurance revenue on a third-party basis by product line for 2025:

Fairfax Net Insurance Revenue by Product Line	2025	Split	2024	YOY Change
Casualty	$14,574	56%	$13,740	6%
Property	$9,009	35%	$8,524	6%
Specialty	$2,490	10%	$2,602	-4%
Total	**$26,073**	**100%**	**$24,866**	**5%**

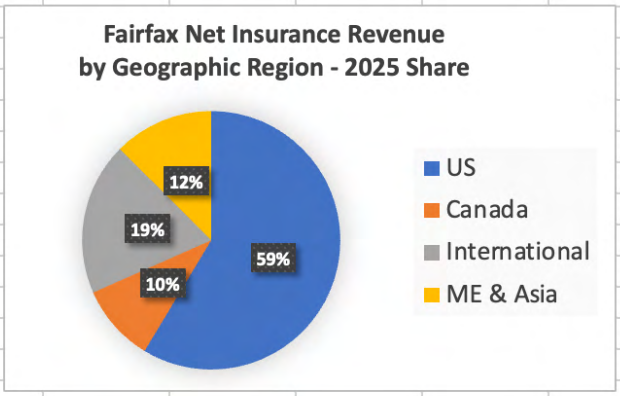


Geographic Region: Net insurance revenue on a third party basis by product line for 2025:

Fairfax Net Insurance Revenue By Geographic Region	2025	Split	2024	YOY Change
US	$15,288	59%	$14,297	7%
Canada	$2,539	10%	$2,603	-2%
International	$4,982	19%	$4,507	11%
ME & Asia	$3,264	13%	$3,459	-6%
Total	**$26,073**	**100%**	**$24,866**	**5%**

International: Europe, Africa South America and Oceana

ME & Asia: India, Sri Lanka, Malaysia, Singap. Indonesia, China, South Korea, Middle East



Insurance – Is Fairfax a Growth Company?

December 23, 2024

Talk to other investors about Fairfax and guess what they usually want to talk about? Investments. Not Fairfax's insurance businesses. Which is nuts. Because Fairfax is a P/C insurance company. In this post, we will explore Fairfax's little followed and therefore likely misunderstood and under-appreciated insurance business.

Is Fairfax a growth company?

I realize that sounds like a dumb question to ask. I mean this is Fairfax after all. But hey, just for fun, what do the numbers tell us?

A good way to measure the top line performance of a P/C insurance company is to look at the trend in net premiums written.

How has Fairfax performed over the past decade with this very important metric?

The 10-Year performance of NPW (2014-2024)

Fairfax has grown net premiums written (NPW) from $6.1 billion in 2014 to an estimated $25.4 billion in 2024. This performance is on track to deliver a total increase in NPW of $19.3 billion or 315%, which is a compound annual growth rate (CAGR) of 15.3%.

To state the obvious, a quadrupling in size is an amazingly high level of growth in NWP over a decade.

Importantly, this high level of growth was delivered through both soft and hard P/C insurance markets. And bull and bear financial markets. **The external environment did not impede Fairfax's ability to grow.** That is pretty impressive. And really, really instructive. **Truth be told, the external environment was one of the key factors that allowed Fairfax to deliver such outstanding growth year after year.** Volatility creates opportunity. And one of Fairfax's core strengths is being opportunistic and being able to capitalize on volatility.

Per Share

Buffett teaches us that total growth numbers are not the metrics investors/shareholders should be primarily focussed on. What really matters is what is going on with the per share metrics.

Per share, Fairfax has grown NPW from $289/share in 2014 to an estimated $1,160/share in 2024. This performance is on track to deliver a total increase in NPW of $871/share or 302%, which is a compound annual growth rate (CAGR) of 14.9%. Bottom line, the phenomenal growth has not been driven by diluting Fairfax's existing shareholders. Much more on this in the next post.

Fairfax: NPW 10-Yr Growth - 2014 to 2024				
	Net Premiums Written			Shares
31-Dec	$b	%	/ share	m
2014	$6.1		$289	21.2
2015	$7.5	23%	$339	22.2
2016	$8.1	8%	$350	23.1
2017	$10.0	23%	$359	27.8
2018	$12.0	20%	$442	27.2
2019	$13.3	10%	$495	26.8
2020	$14.7	11%	$562	26.2
2021	$17.8	21%	$745	23.9
2022	$22.3	25%	$957	23.3
2023	$22.9	3%	$996	23.0
2024E	$25.4	11%	$1,160	21.9
Increase	**$19.3**		**$871**	
%	**315%**		**302%**	
CAGR	**15.3%**		**14.9%**	

But Fairfax's performance over the past decade has actually been much better than this. And that is because the numbers above do not include Fairfax's P/C insurance company in India - called Digit Insurance.

In February 2017, Fairfax made their initial investment in a P/C insurance start-up called Digit. Over the past 8 years, Digit has been one of the fastest growing P/C insurance companies in India. Earlier this year, Digit completed its IPO. The company currently has a market cap of about $3.8 billion, with Fairfax's position worth around $2 billion. Fairfax is the largest (and controlling) shareholder of Digit.

Importantly, India is expected to have the best performing economy in the world over the next decade. With its investment in Digit, Fairfax is perfectly positioned to benefit from this rapid growth in the coming years.

Including Digit, the growth of Fairfax's P/C insurance business over the past 10 years has been best in class among P/C insurance companies.

How did Fairfax do it?

Fairfax's management team has been putting on a clinic for the past decade in how to do/utilize capital allocation to rapidly grow a P/C insurance business.

But investors/analysts have been so focussed (obsessed?) with Fairfax's investment business they have completely missed out on what has been happening with its P/C insurance business. **And what it means for the company moving forward.**

Capital allocation

Yes, we keep coming back to capital allocation.

Why is this?

Because it is really important. Especially for a P/C insurance company like Fairfax. As we have discussed many times in other posts, capital allocation is the most important job of a management team.

But the funny thing is, when people think about capital allocation and Fairfax they tend to only think (and talk) about the investment side of the business. (Yes, I am including much of my writing/analysis when I say this). That's the 'sexy' part. And yes, Fairfax has done some pretty spectacular things with investments, especially in recent years.

But the insurance business?

It gets very little thought. Even less discussion.

But guess what?

On the capital allocation front, Fairfax has done some pretty spectacular things with its P/C insurance business as well. Of course this matters a great deal. Because the two businesses - insurance and investments - are joined at the hip. Grow insurance and you grow that wonderful thing called float - that liability that is really an asset (for well-run insurance companies, like Fairfax).

The steady, long-term growth of the P/C insurance business was the primary engine that allowed Warren Buffett to deliver decades of outstanding growth for Berkshire Hathaway and its shareholders. **Understanding what Buffett was doing with his insurance business over the years was a critical input to properly understanding and valuing Berkshire Hathaway.**

So let me say it again.

Fairfax has grown its insurance business by 15.3% per year for the past decade. Not including Digit. Guess what this kind of steady, long-term growth does to the intrinsic value of a P/C insurance company? Yes, it sends it to the moon.

Are we paying attention yet?

What happens with insurance matters. A lot. Because the growth of the insurance business is what feeds the investment business.

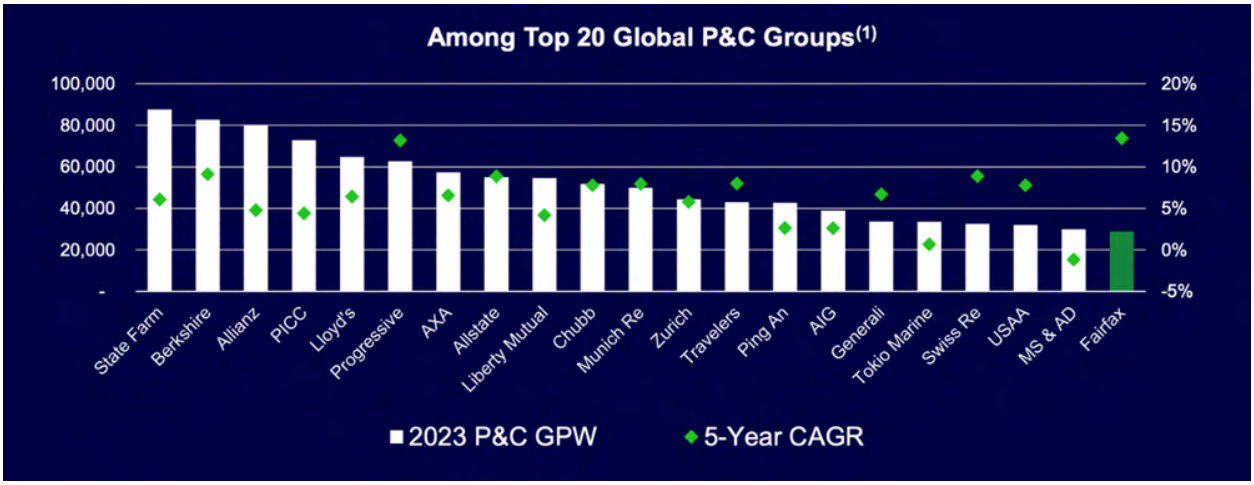
The fact that such little attention is paid to Fairfax's insurance business (its quality and its growth) puts a smile on my face. It tells me it is likely not yet reflected in the share price. As a result, investors continue to underestimate Fairfax's future earnings and ROE.

Over the past 10 years, Fairfax has made a number of extraordinary moves to rapidly grow their insurance business. Under everyone noses, they have quietly built a power house P/C

insurance business - in terms of quality and growth. This post is focussed on the growth aspect. A future post will tackle the quality aspect.

The quiet giant

Guess how many large cap Canadian companies have grown their top line by 15.3% for a decade straight? Not many. Apparently not many P/C insurance companies either. Like a goat going up a mountain, Fairfax has been nimbly and quickly climbing the rankings of the largest global P/C insurers. In 2023 they were ranked in the #21 position (same as 2022).



Source: From Fairfax's Slide Presentation at April 2024 AGM – Excluding Lloyd's

So, let's ask the question again that we began our post with…

Is Fairfax a growth company?

Yup.

WOW! A Canadian company that is competing against the best the world has to offer… and not just playing the game (that participation award thing we love so much here in Canada) but actually winning? That is crazy. Canada must be so proud! Let's invite Prem to Ottawa, hold a parade and celebrate!

Except… ummm… few people in Canada seem to know that Fairfax exists let alone that it has been growing like a weed. It looks like most investors are also in the same boat. Because how does Mr. Market reward a fast-grower's share price?

My current estimate is Fairfax will earn $160/share in 2024. This would put year-end book value at about $1,085 and would represent an ROE of about 16%.

From a valuation perspective, this would put Fairfax's:

- P/BV at 1.29 x
- PE at 8.7 x

These are very low valuations for a company that:

- Has a CAGR for NPW of 15.3% over the past decade.
- Is also projected to deliver an ROE of 16% in 2024 (and mid-teens moving forward).

Why is Fairfax's valuation so low?

One reason is likely because with the hard market slowing, investors/analysts expect top line growth (in net premiums written) to markedly slow at Fairfax in the coming years. That might make sense from an industry perspective. But does that make sense for Fairfax? Looking at Fairfax's past, I don't think it does. **Because Fairfax has a proven ability to grow its insurance business over the long term at above market rates.**

Fairfax - Valuation (US$)	Dec 31, 2024	Dec 31, 2023
Book Value - est Dec 31, 2024	$1,085	$940
P/BV	1.29	
ROE (average equity)	16%	
Dividend per share & yield	$15	1.4%
Share Price - Dec 13, 2024	$1,397	
2024E EPS - my current estimate	$160	
2024E P/E	8.7	

Accounting value versus economic value

Importantly, Fairfax's book value of $1,085/share does not include the 'excess of fair value over carrying value' of associate and consolidated equity holdings, which was $1.9 billion ($86/share pre-tax) at September 30, 2024.

And 2024 estimated EPS of $160/share for Fairfax does not include the change in 'excess of fair value over carrying value' for associate and consolidated equity holdings in 2024, which was $900 million ($41/share pre-tax) at September 30, 2024.

In 2024, Fairfax's economic results are tracking to be much better than their accounting results.

This makes Fairfax's stock look even cheaper from a valuation perspective.

But, hey, we all know Mr. Market is always right. Right? Except of course when Mr. Market is completely wrong. That is called a fat pitch by some country bumpkin who lives in Omaha. But hey, that is a story for another day.

What did Fairfax do to quadruple the size of its insurance business in 10 years?

December 23, 2024

In the previous post, we looked at Fairfax's insurance business and asked the following question: 'Is Fairfax a growth company?' Our answer, based on the significant growth of net premiums written (CAGR of 15.3%) over the past decade, was 'yes.'

In this post we will now dig into what happened at Fairfax over the past ten years to drive all that top-line growth in NPW.

Part II: A short history of the growth of net premiums written (NPW)

The growth in NPW that Fairfax is poised to deliver from 2014-2024 has happened in two pretty distinct phases.

- Phase 1: Acquisitions – International expansion (2015-2017)
- Phase 2: Organic - Hard market (2019-2024)

After we review these two phases, we will then look at what might be coming next, in phase three:

- Phase 3: Take-out of minority partners (2022-2026)

As one would expect, there is some overlap with these phases.

So, let's get started and peel back the onion a little bit. What did Fairfax do? What was the cost? Was it good for shareholders?

By digging a little deeper, we can learn more about Fairfax and how they do capital allocation looking through the lens of P/C insurance business. In turn, this will help us better understand and evaluate the performance of the management team.

Phase 1: Growth via acquisitions – international expansion (2015 to 2017)

Throughout their history, Fairfax has used acquisitions to help fuel its growth. Over a 3-year period, from 2015-2017, Fairfax made six different large P/C insurance acquisitions that cost a total of $7.5 billion.

How did Fairfax pay for the acquisitions?

At the time (2015 to 2017), Fairfax was short on cash as the investment side of the business was underperforming (losses from equity hedges/shorts and poorly performing legacy equity holdings… yes, sorry to keep picking that scab).

To fund the acquisitions, Fairfax used the traditional funding sources:

- Equity: Raised $3.34 billion (7.2 million shares were issued at avg cost of $462/share).
- Debt: from 2015 to 2017, net debt increased $2.1 billion (the average interest rate on the new debt was about 4.55% and the average maturity was about 9 years).

Asset sales have long been an underappreciated tool in Fairfax's capital allocation tool box. From 2015 to 2017, Fairfax also raised significant cash with asset sales.

- Asset sales: $3.3 billion (Bank of Ireland, ICICI Lombard, First Capital, Ridley)

The sale of First Capital deserves special mention. In 2017, Fairfax sold First Capital for $1.7 billion and booked a $1 billion gain after-tax. First Capital was sold for more than 3 x book value. In comparison, Allied World, Fairfax's largest acquisition, was purchased for 1.3 x book value. Smart. And very accretive for Fairfax shareholders.

But Fairfax wasn't done with funding sources. They also got creative. They came up with a brand-new way to source 'other people's money'. For the three larger purchases, Fairfax brought on minority partners - the big pension funds in Canada (OMERS and AimCo).

- Minority partners: Raised $2.256 billion

Minority partners funded 30% of the $7.5 billion total purchase price.

Fairfax - P/C Acquisitions and Minority Partners Share

		Total	Fairfax		Partners		
		$	$	Share	$	Share	Comments
2015	Brit (Lloyds of London)	$1,657	$1,141	70%	$516	30%	OMERS
	Eurolife (Greece)	$361	$181	40%	$180	40%	20% Eurobank
2016	AMAG (Indonesia)	$179	$170	100%	$0		
	AIG (Lat AM & Cent Eur	$240	$240	100%	$0		
	Zurich South Africa	$128	$128	100%	$0		renamed Bryte
2017	Allied World	$4,900	$3,340	67.5%	$1,560	32.5%	OMERS, AimCo
	Total	**$7,465**	**$5,200**	**70%**	**$2,256**	**30%**	

How much did Fairfax grow from 2014 to 2018?

In a soft P/C insurance market, NPW increased from $6.1 billion in 2014 to $12.0 billion in 2018, for total growth of $5.9 billion or 96% over 4 years. Yes, the share count did increase quite a bit during this time so growth per share in NPW was lower at 53% (more on this later).

Fairfax: NPW 4-Yr Growth - 2014 to 2018				
	Net Premiums Written			Shares
31-Dec	$bn	%	/ share	mn
2014	$6.1		$289	21.2
2015	$7.5	23%	$339	22.2
2016	$8.1	8%	$350	23.1
2017	$10.0	23%	$359	27.8
2018	$12.0	20%	$442	27.2
2014-18	**$5.9**		**$153**	**6.0**
%	**96%**		**53%**	**28%**

Capital allocation 101

Opportunistic: The timing of Fairfax's acquisitions was close to perfect.

Fairfax is a value investor. Not just when it comes to their investment business. They look at their insurance business through the same lens. In 2015, they saw great value in buying other P/C insurance companies. Insurance was in a soft market. Well run companies were available at reasonable valuations.

Conviction: Fairfax sized their bet appropriately - they backed up the truck.

At December 31, 2014, common shareholders' equity at Fairfax was $8.4 billion. Spending $7.5 billion on acquisitions over a three-year period was an extremely aggressive move by the company.

Creativity: Fairfax was very creative in how it raised the needed cash.

At the time (2015-2017), Fairfax was short on cash (putting it politely). The investment management part of the company was severely underperforming. What to do? In addition to the usual actions (tap equity and debt markets) Fairfax also sold assets at premium valuations. And they brought on minority partners.

The net result was Fairfax was able to double the size of their insurance business (net premiums written) in 4 short years from 2014 to 2018. Much of the growth was international. Fairfax now had a global P/C insurance platform.

Growth by acquisition can be good but it does carry risks. Did you overpay? Are there hidden issues such as poor reserving? Are there integration/culture issues?

What is the best way for an insurance company to grow?

The answer is a hard insurance market and that is what started in Q4 of 2019.

Phase 2: Organic growth - hard insurance market (2019-2024)

Hard markets for P/C insurers are very rare. The last one was in 2001-2004. So, when they happen, you need to capitalize on them. Fairfax understood this and that is what they proceeded to do.

What makes a hard market so good?

The opportunity to charge higher premiums and to apply more stringent underwriting (more favourable terms and conditions on policies). For well-run insurers like Fairfax, a hard market is like getting a gift from the insurance gods.

In late 2019, Fairfax was very well positioned to capitalize on the hard market. By then, the many large insurance acquisitions they had made from 2015 to 2017 had been fully integrated / digested.

But to grow aggressively in a hard market an insurance company needs capital. Lots of it. So, from a capital allocation perspective, Fairfax prioritized supporting the growth of the insurance subs.

How much did Fairfax grow over the 6-year period from 2018-2024?

Net premiums written increased from $12.0 billion in 2018 to an estimated $25.4 billion in 2024, for total growth of 111% over six years. However, during this period the share count decreased by 19% so growth per share was much higher at 162%. That is rocket-ship-emoji type organic growth over a five-year period.

Fairfax: NPW 6-Yr Growth - 2018 to 2024

	Net Premiums Written			Shares
31-Dec	$bn	%	/ share	mn
2018	$12.0		$442	27.2
2019	$13.3	10%	$495	26.8
2020	$14.7	11%	$562	26.2
2021	$17.8	21%	$745	23.9
2022	$22.3	25%	$957	23.3
2023	$22.9	3%	$996	23.0
2024E	$25.4	11%	$1,160	21.9
Increase	**$13.4**		**$718**	**-5.3**
%	**111%**		**162%**	**-19%**

We need to draw attention to two things Fairfax did in Phase 2: Organic Growth phase (2018-2024). Because they had a material impact on the insurance business.

1.) Fixed income - Side-stepping the historic bear market in bonds

2022 saw the greatest bear market in history in bonds. Most P/C insurers hold the vast majority of their investment portfolio in bonds. As a result of the spike in interest rates in 2022, the value of

their bond portfolios got mauled. Book value for many P/C insurance companies fell by 20% to 30%. This had two effects:

- It lit a fire under the hard market in insurance (the losses on the investment side of the business put even more pressure to make money on the insurance side).
- It constrained their ability to capitalize on the hard market and grow their insurance business (the drop in book value lowered capital levels).

What about Fairfax?

In late 2021, Fairfax shifted the average duration of their fixed income portfolio to 1.2 years. Most P/C insurance companies have an average duration closer to 4 years. As we said earlier, Fairfax are value investors. In late 2021 they correctly surmised there was no margin of safety in owning duration in the bond portfolio. (Not surprisingly, Warren Buffett had reached the same conclusion).

As a result, in 2022, when interest rates spiked higher, Fairfax largely avoided the historic bear market in bonds. This protected Fairfax's balance sheet by saving the company from billion in losses. As a result, Fairfax was one of the very few P/C insurance companies that actually reported an increase in book value in 2022. This allowed Fairfax to fully capitalize on the hard market - they grew NPW by a staggering 25% in 2022. (Fairfax since extended the average duration of its bond portfolio to about 3.5 years - it is now close to matching the average duration of its insurance liabilities.)

Fairfax was able to side-step the greatest bear market in history in bonds. Their actions saved the company from booking billions in losses. And allowed them to fully capitalize on the hard market in insurance. Simply brilliant.

2.) Share Buybacks - How to use common shareholders equity to grow the insurance business

As a reminder, to support its aggressive acquisition strategy in insurance from 2014 to 2018, Fairfax increased effective shares outstanding by 6 million shares at an average price of about $462 per share.

From 2018 to 2023, Fairfax reduced effective shares outstanding by 4.2 million at an average price of about $503 per share. Fairfax was able to buy back 70% of the shares issued at a price that was only about 10% higher than what they had been issued at years earlier - even though the intrinsic value of the company (measured through the lens of NWP/share) had substantially increased.

Of the 4.2 million shares bought back, at the end of 2021, Fairfax spent $1 billion to buy back 2 million shares at $500/share. At the time, Fairfax still did not have a lot of excess cash. And what cash they did have was being used to drive growth at the insurance subs in the hard market.

What to do?

Get creative - again - and sell part of an asset to minority partners. Fairfax sold 9.99% of Odyssey to two large Canadian pension funds for $900 million. 9.99% of Odyssey was sold at 1.7 x book value. And the proceeds were used to buy Fairfax shares that were trading at 1.1 times book value (and Fairfax knew intrinsic value was much, much higher).

Over the past 3 years, book value at Fairfax has exploded higher. Book value was $1,033 per share at September 30, 2024. (And yes, the intrinsic value of Fairfax is much higher than this). Fairfax's shares are currently trading at about $1,400 per share. **The buybacks made from 2018 to 2023 have delivered exceptional value to Fairfax shareholders.**

The key takeaway is Fairfax saw a wonderful opportunity and they once again sized their bet appropriately - they backed up the truck. And they found a creative way to execute it.

In 2024, Fairfax continues to be very active on the share buyback front. I estimate they will reduce effective shares outstanding by another 1.1 million at an average price of about $1,127 per share.

Full circle.

From 2014 to 2018, Fairfax grew effect shares outstanding by 6 million shares. From 2018 to 2024, they are on track to reduce effective shares outstanding by 5.3 million. The dilution caused by share issuance has been almost completely reversed. Importantly, the shares were repurchased at very attractive prices.

Fairfax's use of common shareholders' equity (issue and then repurchase shares) to aggressively expand its P/C insurance business over the past 10 years has delivered outstanding value to long term shareholders.

A hard market is the best way for an insurance company to grow but they do not last forever. And it looks like the current hard market is slowing.

Does this mean that the growth story is over?

No. For a couple of reasons. One reason is Fairfax has set the table nicely for what will likely drive the next phase of growth for the company's insurance business: the buying out of their minority partners.

<u>Phase 3: Take-out of majority/minority insurance partners (2021-2025)</u>

As we have discussed, there were times from 2014 to 2022 when Fairfax was capital constrained. But that all changed in 2023. Earnings at Fairfax exploded higher. Fairfax is now earning around $4 billion per year. Importantly, this level of earnings looks like it is the new 'normalized level.' Not only is it sustainable, it should grow nicely from here in the coming years.

What will Fairfax do with this Smaug-like mountain of gold that is now rolling in each year?

The hard market in insurance appears to be slowing. This means the insurance subs will likely not be needing as much capital.

What else could Fairfax do?

Now that they are all cashed up, we could see Fairfax take out their insurance partners.

And guess what?

This is what they have been doing. In recent years, we have seen Fairfax getting more aggressive in taking out their minority/majority insurance partners beginning with the Allied World (2022) and then Gulf Insurance Group (2023). And in December 2024, Fairfax announced the takeout of its minority partner in Brit.

We will likely see this continue in 2025 and 2026.

How much has Fairfax spent in recent years to take out its insurance partners?

Over the past 4 years, Fairfax has committed to spend a total of $2.26 billion. Fairfax has been spending a significant amount of money, especially over the past 3 years, to take out its insurance partners.

Fairfax - Insurance Partners Bought Out - 2021 to 2024

Year	Holding	Amount US$	Increase in Ownership
2021	Eurolife	$143	From 50% to 80%
2021	Singapore Re	$103	From 28.1% to 100%
2022	Allied World	$733	From 70.9% to 82.9%
2023	Gulf Insurance Group*	$740	From 43.4% to 90%
2023	Allied World	$31	From 82.9% to 83.4%
2024	Gulf Insurance Group	$127	From 90% to 97%
2024	Brit	$383	From 84.2% to 100%
	Total Cost	**$2,260**	

Gulf Insurance Group * = $740 million = fair value consideration.

Let's do a short review of each of these transactions.

Eurolife

- 2018 & 2021 Eurolife
    - Increased ownership from 40% to 50% and then to 80%. The last 30% was purchased from OMERS in 2021 for $143 million.

Fairfax now owns 80% of Eurolife. Eurobank owns the remaining 20% of Eurolife.

Singapore Re

- 2021 Singapore Re
    - Paid $103 million to increase ownership from 28.1% to 96% (now 100%).

In this example, Fairfax took out the majority partner. Fairfax now owns 100% of Singapore Re. Their buyout in 2021 was timed perfectly - done right before the hard market in reinsurance started.

Allied World

- 2022 Allied World
    - Paid $733 million to increased ownership from 70.9% to 82.9%
    - In Q2 of 2023, paid $31 million to increase ownership from 82.9% to 83.4%.

In 2022, Fairfax began the process of buying out its partners in Allied World. Given the sums involved it makes sense Fairfax will do this in a couple of bites and over a couple of years.

Gulf Insurance Group

- 2023 Gulf Insurance Group
    - Fairfax took out the majority partner, KIPCO, with this purchase.
    - Fairfax increased their stake from 43.7% to 90%.
    - Paid $740 million ('fair value aggregate valuation').
    - In April of 2024, paid $126.7 million to increase ownership from 90% to 97.1%.

Like with Singapore Re, Fairfax took out the majority partner (Kipco in this case). Fairfax now owns 97% of GIG. This purchase was very important strategically - it solidifies Fairfax's presence as one of the largest P/C insurance companies in the important and growing MENA (Middle East / North Africa) region.

Brit

- 2024 Brit
    - Paid $383 million to increased ownership from 84.2% to 100%.

Fairfax announced this transaction on December 13, 2024.

Why is taking out insurance partners good for Fairfax shareholders?

These purchases are a good 'use of cash' for Fairfax. They know the assets well (to state the obvious). From a capital allocation perspective, these transactions are very low risk / solid return for Fairfax.

Majority partners - from associates to consolidated holdings

In two of the transactions, Fairfax took out the majority partners. GIG was the larger purchase. This purchase has been driving the increase in NPW at Fairfax in 2024.

Minority partners - equity accounted holdings

The minority partners (Canadian pension funds) are getting paid for their investment (primarily via dividends in the 8% per year range?). Taking out the minority partners means the amount they are getting paid will now flow to Fairfax shareholders.

Taking out the minority insurance partners increases the share of Fairfax's earnings that accrues to common shareholders - it increases their economic interest in the company.

For common shareholders, it increases the numerator in the earnings per share calculation. The 'net earnings attributable to shareholders of Fairfax' part.

Buying back shares reduces the denominator in the EPS calculation. Doing both at the same time? Yes, the result is magic for shareholders. This is what is happening at Fairfax today.

Taking out the minority partners also simplifies Fairfax's structure and makes the company easier to understand.

Minority partners - What is left?

Fairfax has three large minority partner positions outstanding:

- Allied World at 16.6%
- Odyssey at 9.9%
- Eurolife at 20% (not included in the chart below because it is primarily a life insurer)

Taking out the minority partners at Allied and Odyssey will increase the economic ownership of Fairfax shareholders by about 6.6% (measured by NWP).

How much will it cost?

The total cost to Fairfax will likely be a little more than $2 billion.

Fairfax: Net Premiums Written (2023) Adjusted for Minority Partners

	Odyssey	Allied	Brit	Crum	NB	Zenith	Intnl	Total	
Fairfax Ownership	90%	83.4%	100%	100%	100%	100%	95%	$	Share
Net Premiums W	$5.7	$4.8	$3.0	$3.9	$2.1	$0.8	$2.3	**$22.7**	**100%**
Fairfax Share	**$5.2**	**$4.0**	**$3.0**	**$3.9**	**$2.1**	**$0.8**	**$2.2**	**$21.2**	**93.4%**
Minority Share	**$0.6**	**$0.8**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.1**	**$1.5**	**6.6%**

After all this, what did we learn?

Growth investing is defined as identifying and investing in companies with above average growth prospects compared to the industry/peers. Over time, higher growth leads to higher earnings which usually leads to a higher stock price. For growth investing to work the company needs to be successful - does the growth and higher profitability actually happen?

In our previous post (Part 1) we learned that Fairfax is a growth company. The numbers are pretty clear. From 2014 to 2024:

- Net premiums written increased from $6.1 to $25.4 billion = CAGR of 15.3%.
- NPW per share increased from $289 to $1,160 = CAGR of 14.9%

In this post (Part 2) we learned how Fairfax achieved such high growth in its insurance business:

- From 2014 to 2018, growth was driven by acquisition.
- From 2019 to 2024, growth was driven by the hard market.

This growth was achieved:

- In both soft and hard insurance markets.
- In bull and bear financial markets (stocks and bonds) - many of Fairfax's best (most impactful) decisions came during times of extreme volatility.
- When Fairfax weas severely short on cash (2015 to 2021).

Capital allocation

When it comes to capital allocation, all the 'usual' tools in the toolbox were skillfully used:

- Equity
- Debt
- Asset sales

Fairfax also discovered a new tool - minority partners.

Fairfax has been:

- Open minded - Read the situation well.
- Rational - Fact based decisions.
- Flexible - Used the right tools.
- Creative - Found solutions to problems.
- Opportunistic - Acted when the time was right.
- Conviction - Sized their decisions appropriately.
- Long term focus

As a result, both capital allocation objectives were achieved:

- Increase in per share value for shareholders over the long term.
- Made the company stronger.

Over the past 10 years, Fairfax has been delivering a clinic in how to grow a P/C insurance business. In recent years, the picture Fairfax has been painting has been coming into focus for investors - and it is looking like a masterpiece. Their strategic vision, planning, creativity and execution has built Fairfax into a global insurance giant that is exceptionally well positioned today.

Based on what we have learned, when it comes to growing a P/C insurance company, I think we can reasonably conclude that the management team at Fairfax is best in class.

What about the future?

Most investors see the hard market slowing. So, they naturally expect Fairfax's top line growth (NWP) to also slow.

But is that what history teaches us?

No. History teaches us that Fairfax has been able to significantly grow its insurance business - regardless of where we are in the insurance cycle. **The expectations of investors today is contradicted by what has actually happened at Fairfax over the past 10 years.**

Fairfax grew their insurance business at a CAGR of 15.3% when they were cash poor. And now that they are all cashed up, we should now expect the growth of the insurance business to flatline?

That makes no sense to me.

At a minimum, Fairfax should be able to grow its insurance business in the coming years at a rate that exceeds (double?) the growth we see in the overall P/C insurance market.

There are some pretty simple things Fairfax can do today to grow the **per share economic interest** of shareholders:

- Continue to grow in the hard market. Yes, the rate of growth is slowing. However, with inflation staying elevated in the 3% range, we should see 3% to 5% growth in NPW in the coming years.
- Continue with bolt on acquisitions - like they have been doing.
- Continue to take out of minority partners - Allied World, Odyssey and Eurolife. This will likely be a multi-year process.
- Continue with share buybacks - Fairfax shares are still undervalued. Perhaps the pace of buybacks slows to around 2% per year.

These 4 activities alone should drive high single digit / low double digit growth in Fairfax's insurance business - the economic interest of long-term shareholders. Importantly, this does not include the growth that will be coming from Digit.

<u>Management</u>

Fairfax is generating an enormous amount of free cash flow - and this is expected to continue in the coming years. They also have a best in class management team. That is a wonderful combination.

Like they have done repeatedly in the past, I also expect that Fairfax will pull another rabbit out of their hat in the coming years - they will do something big that will build the per share value of their insurance business for long term shareholders. Something we don't see today - but that will make sense a few years later.

What will they do?

We won't know in advance. Because it will depend on what happens in insurance and financial markets. They will be opportunistic. As significant earnings continue to roll in year after year, Fairfax will have the capacity to do something large and transformative.

Or perhaps the focus will shift to the non-insurance side of the business for the next couple of years.

And that highlights the beauty of Fairfax's business model (the P/C insurance model exploited so successfully for decades by Warren Buffett).

Capital will go to the best risk adjusted opportunities. Insurance and/or investments. With a long-term focus. Volatility will be exploited.

As an investor, I can't wait to see what Fairfax does.

Was 2010 to 2020 really a lost decade for Fairfax shareholders?

Looking at it strictly through the lens of the stock price, yes, it was. However, looking at it through the lens of the insurance business, we get a very different answer - no, 2010 to 2020 was not a lost decade for Fairfax shareholders. From 2015 to 2019, Fairfax did a very good job of significantly growing its insurance business (and integrating the new purchases). This set the table for Fairfax to reap the significant rewards of the hard market that got rolling in 2020.

The intrinsic value of Fairfax had been growing nicely at Fairfax from 2010 to 2020. But investors were so focussed on the mis-steps that were happening on the investment management side of the business that they completely missed the significant value that was being created on the insurance side of the business. They forgot that, at its core, Fairfax was still an insurance company. So, when Fairfax fixed its problems on the investment management side of the business (the last short position was exited in Dec 2020), the true earnings power of the company was unleashed. Today, both businesses - insurance and investments - have never been better positioned.

Insurance - Growth by Acquisition - 2015 to 2017

"Someone's sitting in the shade today because someone planted a tree a long time ago." Warren Buffett

From 2015 to 2017, Fairfax executed on a bold plan to significantly grow the size of their international P/C insurance footprint. That is what we are going to review in this post.

What was the cost? What did Fairfax do? How did it work out? How is the company positioned today? Enough time has passed that we can now properly evaluate the decisions and performance of the management team at Fairfax.

What was the total cost?

Over the 3-year period from 2015 to 2017, Fairfax made a total of 11 different purchases of insurance companies. The total cost was $7.6 billion.

The three biggest purchases were Allied World ($4.9 billion), Brit ($1.7 billion) and Eurolife ($361 million).

Fairfax's P/C Insurance Purchases 2015-2017

	Date		Total Cost	
2015	01-Jan	Union Unsurance (Sri Lanka)	$28	Fairfax owns 78%; renamed Fairffirst; purch from John Keells
	01-Mar	MCIS Insurance (Malaysia)	$13	Malaysian insurer
		Africa Re	$61	7.2% stake
	04-May	BIC Insurance Corp (Vietnam)		Fairfax owns 35%; ins sub of BIDV Bank, #2 bank in Vietnam
	05-Jun	Brit (UK)	$1,657	Increased Lloyds profile of Fairfax.
	22-Dec	Eurolife (Greece)	$361	Bought from Eurobank. 3rd largest insurer in Greece
2016	03-Oct	Asian Alliance (Sri Lanka)	$10	Sri Lankan insurer; renamed Fairfirst insurance
	10-Oct	AMAG Insurance (Indonesia)	$179	Fairfax owns 80%
	18-Oct	AIG Latin Am & East Europe	$240	Latin America and Central/Eastern Europe
	07-Dec	Zurich South Africa	$128	Renamed Bryte Insurance
2017	06-Jul	Allied World	$4,900	Paid 1.3 x BV. Writes $3.1 billion in business.
		Total	**$7,577**	

What did Fairfax do?

The acquisitions dramatically built out Fairfax's international P/C insurance footprint. While also strengthening its US and Canadian operations.

- Lloyds of London/UK - Brit
- Asia (Sri Lanka, Vietnam, Malaysia, Indonesia)
- Greece - Eurolife
- Eastern Europe - AIG
- Latin America - AIG
- South Africa - Zurich
- Allied World – Bermuda

India: 2017 was also the year Fairfax made a bold move with the strategic positioning of its P/C insurance business in India. It pivoted from ICICI Lombard to Digit, in what has become a brilliant move. We will not include this move in this post. But this move (and the timing) does fit the 'built out the international P/C insurance platform' theme.

The timing of the purchases

To state the obvious - the timing of an acquisition is very important. In general, the worst time to buy an insurance company is probably at the end of a hard market. Profitability and stock prices are at peak levels. And a big premium will likely need to be paid. There is little margin of safety. The best time to buy an insurance company is in a soft market. Profitability and stock prices are usually at more acceptable levels. The premium is reasonable. There is more of a margin of safety.

With hindsight, 2015-2017 was the perfect time to buy P/C insurance companies. At the time, P/C insurance was in a soft market - not great for underwriting profit. And interest rates were low - not great for investment results. As a result, well run P/C insurance companies were available for purchase at reasonable prices.

The evolution of a value investor - quality at a fair price

"It's far better to buy a wonderful company at a fair price, than a fair company at a wonderful price." Warren Buffett

Fairfax are value investors. It permeates everything they do (both insurance and investments). However, Fairfax is also a 38-year-old company - it has evolved and changed in important ways.

In the past, Fairfax's style could be best described as 'deep value.' Today, Fairfax's style could perhaps be best described as 'quality at a fair price.' This is becoming more apparent with how Fairfax has been managing their equity investments over the past 6 years.

Of interest, 'quality at a fair price' has been in place on the insurance side of Fairfax since the Zenith acquisition back in 2010. Importantly, from 2015-2017, Fairfax paid up a little to buy decent to good insurance companies. Allied World, the largest purchase by far at 64% of the total, was a well run insurance company.

Fairfax's shift to 'quality at a fair price' is not yet well understood by investors. This shift will have an important impact not only on Fairfax's future earnings (more predictable) but also on their volatility (lower).

The size of the purchases

"Opportunities come infrequently. When it rains gold, put out the bucket, not the thimble." Warren Buffett

Let's put $7.6 billion into perspective. At the end of 2014, common shareholders' equity at Fairfax was $8.36 billion. Net premiums written were $6.1 billion. At the time, spending $7.6 billion on 11 different P/C insurance acquisitions was an extremely aggressive move by Fairfax. They were acting with conviction.

How did Fairfax come up with the money?

But remember, this was also the time when Fairfax's investment portfolio was underperforming (booking significant losses from equity hedges/short positions). So, Fairfax did not have a lot of spare cash just lying around.

How do you go on an acquisition spree when you are short on cash?

This highlights one of the greatest and under-appreciated strengths of the management team at Fairfax. They are very creative/resourceful in finding solutions to challenges.

Fairfax came up with the cash for its insurance acquisitions in four basic ways:

1. Equity: From 2015-2017, Fairfax raised $3.3 billion from issuing common shares. The total share count increased 34.3%. The average issue price was about $456/share. Shares were issued (on average) at a small premium to book value.

Fairfax: Common shares Issued 2015-2017

	Total Shares m	Avg Price Per Share	Total Proceeds $ m	Common Stock Effectively Outstanding Dec 31; m	YE BVPS
2014				21.2	$395
2015	1.17	$502	$587	22.2	$403
2016	1.00	$524	$524	23.1	$367
2017	5.08	$432	$2,197	27.8	$450
Total	**7.25**	**$456**	**$3,308**		
	34.3%	Increase in shares 2014 to 2017			

2. Debt: From 2015-2017, net debt at Fairfax increased by $2.1 billion. From 2015 to 2017, Fairfax did 4 separate debt offerings, raising a total of $1.85 billion at an average rate of interest of 4.55% with an average maturity of about 9 years. Looking back, due to the very low rates, this was an ideal time to use debt.

Fairfax: Change in Net Debt 2014 to 2017			
	Net Debt	3-Year Change	
	$ m	$	%
2014	$1,966		
2015	$2,076		
2016	$3,438		
2017	$4,057	**$2,091**	**106%**

Summary of Debt Offerings 2015 to 2017			
Date	Amount	Rate of Interest	Due
Feb 2015	$350	4.95%	2025
Mar 2016	$400	4.50%	2023
Dec 2016	$450	4.70%	2026
Dec 2017	$650	4.25%	2027
Total	**$1,850**	**4.55%**	**Avg Rate**

3. Asset monetizations: Fairfax sold First Capital at a premium valuation and realized a gain of $900 million after tax. As part of its strategic shift in India, Fairfax also sold down its position in ICICI Lombard which resulted in a gain of $950 million after tax (including gain on 9.9% stake still owned). Fairfax bought low and at the same time sold high.

The First Capital transaction deserves a special shout-out. Most people didn't even know Fairfax owned this business, let alone that it could be sold for such a large sum.

And as we mentioned earlier, the pivot in India was a second brilliant move.

The next time you run into a Fairfax detractor, ask them if they have ever heard of First Capital. And then ask them what they think of Fairfax's pivot with their P/C insurance business in India in 2017 (selling ICICI Lombard, booking a $1 billion gain after tax, and seeding Digit, which has since increased in value by $2 billion). Facts matter.

Fairfax: Asset Monetizationas			
		Proceeds $ m	
2017	First Capital	$1,600	Sold to Sumitomo Insurance
2017	ICICI Lombard	$950	Reduced stake to 9.9%
Total		**$2,550**	

4. Minority partners: Fairfax brought in minority partners who contributed a significant portion of the up-front purchase price. For the three big acquisitions, partners contributed $2.3 billion (33%) of the $6.9 billion total.

The big benefit of using minority partners is it allowed Fairfax, when the time was right, to buy more (control positions) for less (up-front money). This strategy can be especially important/beneficial if you are a little short on cash when the opportunity is ripe.

A P/C insurer using minority partners, like Fairfax did, was unheard of at the time. It was classic capital allocation by Fairfax - very unorthodox but highly effective. Eight years later, most investors still do not understand or appreciate the significance of this move. But as Fairfax continues to take out its minority partners in the coming years - and earnings available to common shareholders

magically pops higher - the brilliance of what Fairfax has accomplished will come into better focus for investors.

	Fairfax's P/C Insurance Purchases 2015-2017							
	Cost Split with Partners		Total	Fairfax		Partner		
	Date		Cost	$	%	$	%	
2015	05-Jun	Brit (UK)	$1,657	$1,141	68.9%	$516	31.1%	OMERS
	22-Dec	Eurolife (Greece)	$361	$181	40.0%	$180	40.0%	OMERS
2017	06-Jul	Allied World	$4,900	$3,320	67.5%	$1,580	32.5%	OMERS, AIMCo, others
		Total	**$6,918**	**$4,642**	**67.1%**	**$2,276**	**32.9%**	

How much did Fairfax's P/C insurance business grow from 2014 to 2018?

From 2014-2018, P/C insurance was in a soft market. As a result, most P/C insurers experienced tepid growth in their top line numbers.

As a result of its many acquisitions, Fairfax was able to double net premiums written (NPW) from $6.1 billion in 2014 to $12 billion in 2018. Due to a 28% increase in the share count, NPW/share increased by 53%.

Fairfax: Growth of Net Premiums				
	Net Premiums Written			Shares
31-Dec	$bn	%	/ share	mn
2014	$6.1		$289	21.2
2015	$7.5	23%	$339	22.2
2016	$8.1	8%	$350	23.1
2017	$10.0	23%	$359	27.8
2018	$12.0	20%	$442	27.2
2014-18	**$5.9**		**$153**	**6.0**
%	**96%**		**53%**	**28%**

How much did Fairfax's business grow from 2018 to 2023?

P/C insurance began its hard market in late 2019. Hard markets are the best of times for insurance companies. However, they happen very infrequently - the last hard market was 2002-2007.

Driven primarily by organic growth, Fairfax was able to almost double NPW from $12 billion in 2018 to $22.9 billion in 2023. Due to a 15% decrease in the share count, NPW/share increased by 125% to $996/share.

Fairfax: Growth of Net Premiums

	Net Premiums Written			Shares
31-Dec	$bn	%	/ share	mn
2018	$12.0		$442	27.2
2019	$13.3	10%	$495	26.8
2020	$14.7	11%	$562	26.2
2021	$17.8	21%	$745	23.9
2022	$22.3	25%	$957	23.3
2023	$22.9	3%	$996	23.0
2018-23	**$10.9**		**$554**	**-4.2**
%	**91%**		**125%**	**-15%**

Summary

Net premiums written at Fairfax have increased from $6.1 billion in 2014 to $22.9 billion in 2023, an increase of 274% which is a CAGR of 15.8%. From 2014 to 2018, growth was driven primarily by acquisitions. From 2018-2023, growth was mostly organic. Fairfax has been able to substantially increase the size of its insurance business over the past 9 years.

As a result of the significant growth in Fairfax's insurance business, float has grown to $35 billion and total investments has increased to $65 billion.

And with the spike in interest rates, the value of float and investments has also increased significantly. As a result, Fairfax delivered record net income in 2023. And the outlook for earnings in the coming years has never looked better.

Fairfax's insurance and investment businesses have never been better positioned than what they are today.

Fairfax: Growth from 2014 to 2023

	Net Premiums Written		Shares	Invest-ments	Float
31-Dec	$b	/ share	m	$b	$b
2014	$6.1	$289	21.2	$26.2	$15.1
2023	$22.9	$996	23.0	$64.8	$35.1
Change	**$16.8**	**$707**	**1.8**	**$38.6**	**$20.0**
%	**274%**	**245%**	**8%**	**147%**	**132%**
CAGR	**15.8%**	**14.7%**	**0.9%**	**10.6%**	**9.8%**

Capital allocation

We come full circle. Thanks for hanging in there - this has been a long post. But Fairfax's story needs to be told. Fairfax continues to be misunderstood and under-appreciated both as a company and as an investment. This will only change as more people come to understand the facts.

The genesis of the exceptional positioning that Fairfax finds itself in today was its aggressive acquisition phase from 2015-2017 where it significantly expanded its global insurance platform. Perfectly timed - right before the onset of the hard market. Perfectly sized. Buy quality at a fair price. Creative with the execution - inclusion of minority partners.

Did Fairfax's aggressive P/C insurance expansion from 2015-2017:

- Deliver a solid return? Yes.
- Improves the quality of the company? Yes.

Fairfax gets an 'A' grade when it comes to capital allocation for what it has accomplished with this set of decisions. Fairfax's capital allocation record in recent years has been exceptional - this is just another in a long list of examples.

Record earnings + best-in-class capital allocation team = great set-up for Fairfax shareholders.

P/C Insurance – Structural Strength Revealed – Insights From the 2026 AGM

April 16, 2026

Introduction

Property & casualty (P/C) insurance has historically been the foundational economic engine behind leading insurance conglomerates. At Berkshire Hathaway, it enabled decades of above-average compounding.

At Fairfax, its importance is even greater.

Fairfax is more leveraged to insurance float than Berkshire was at a comparable stage. As a result, understanding the quality, structure, and evolution of Fairfax's insurance operations is essential to evaluating the company's long-term earning power and intrinsic value.

The April 16, 2026 AGM provided an unusually transparent window into that engine—not just through senior leadership, but through the operators running the business day to day.

Why the 2026 AGM Matters

Fairfax continues to distinguish itself through openness.

Rather than tightly controlling messaging, the company brought forward leaders across the insurance platform—Andy Barnard, Brian Young, Lou Iglesias, and Silvy Wright—alongside Prem Watsa and Peter Clarke.

This matters for three reasons:

- Depth of insight: Investors hear directly from operators, not just executives
- Organizational visibility: Reveals strength of bench and succession planning
- Cultural transparency: Demonstrates how decentralization actually functions

Over time (multiple AGM's), this approach compounds in value. Investors are not simply evaluating reported results—they are evaluating the system that produces those results.

A Unifying Theme: Structure Over Cycle

Across all speakers, one message was consistent:

Fairfax's insurance performance is structural, not cyclical.

Current results are not simply a function of a favorable insurance market. They are the outcome of deliberate decisions made over decades—particularly around leadership, culture, and capital discipline.

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1. Prem Watsa: People, Not Cycles, Drive Outcomes

Prem's opening remarks did not focus on the near-term insurance outlook. Instead, he reframed the discussion around what he views as the true foundation of Fairfax's success: people and long-term decisions.

Key Ideas

Best acquisitions = foundational moves,

- Markel (1985): established Fairfax in the P/C insurance business
- Skandia America Re (1996): pivotal because it led to recruiting Andy Barnard

People drive performance

- Significant effort to recruit Barnard
- His leadership has shaped Fairfax's insurance operations over decades

Long-term transformation of the insurance business

- In 2011, insurance leadership was consolidated under Barnard
- Goal: build an insurance franchise with a reputation equal to Fairfax's investment arm
- Result: insurance is now a core strength of the company

Interpretation
Fairfax's underwriting performance today reflects institutional capability—not cyclical tailwinds. The competitive advantage is embedded in people and culture.

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2. Andy Barnard: From Preparation to Performance

Barnard provided a clear framework for understanding Fairfax's evolution over the past 15 years:

Phase 1: Build (2011 – 2019)
- Expansion through acquisitions (Allied World, Brit)
- Strengthening leadership and structure
- Integration and cultural alignment
- Development of international operations

Phase 2: Execute (2020 – 2025)
- Premiums nearly doubled (primarily organic)
- Underwriting profits more than quadrupled
- Full participation in a favorable market

Interpretation
The "hard market" did not create Fairfax's results—it revealed them.

Years of preparation positioned the company to capitalize when conditions turned favorable.

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3. Brian Young: Discipline in a Softening Market

Brian Young grounded the discussion in current performance and market conditions.

2025 Performance Snapshot
- Underwriting profit: $1.8B
- Combined ratio: 93%
- Cat losses: $1.2B (4.8 pts)
- Favorable reserve development: 19 consecutive years

Operating Quality
- Broad-based execution across ~30 companies
- No negative surprises (all companies met or exceeded expectations)
- Reserves function as a long-term store of value

Market Behavior
- Pricing is softening
- Increased underwriting selectivity
- No pressure to grow without margins

AI Strategy
- Decentralized, bottom-up implementation
- ~75 participants, 100+ use cases
- Focus on efficiency (loss ratio, expense ratio)
- Importantly, not a job displacement strategy

Interpretation
Fairfax is behaving like a high-quality insurer late in the cycle:

Protect margins. Preserve capital. Avoid undisciplined growth.

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4. Allied World: A Platform Built for Cycles

Lou Iglesias demonstrated how Fairfax executes at the operating level.

Performance
- Record underwriting profit and net income
- ~$7.4B in premiums
- Continued global expansion

Despite a softening market, conditions remain rational
- Pricing is more competitive, but not collapsing
- Terms and conditions are holding
- Margins remain acceptable

Structural Advantages

1. Flat Organization
- Faster decision-making (minimal bureaucracy)
- Authority pushed to underwriters (point of action)

2. Diversification
- 40+ products
- 29 offices globally
- Multiple earnings streams reduce volatility

3. Underwriting Discipline
- Willingness to walk away
- Ability to restructure deals (rather than accept poor terms)
- Embedded cultural behavior

Underlying Driver: People
- Experienced underwriters
- Low turnover
- Deep cycle knowledge

Interpretation
Allied World is not reacting to the cycle—it is structurally designed to manage it.
The key in softer markets is limiting mistakes – preserving capacity for future opportunities when conditions turn favorable again.

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5. Northbridge: Discipline Over Growth

Silvy Wright provided a Canadian lens.

Snapshot
- ~$3.4B revenue
- #3 commercial insurer in Canada
- Delivered strong results despite no growth in 2025

Strategic Positioning
- Rising price competition
- No compromise on underwriting standards – no pressure to write unprofitable business
- Focus on claims, expenses, and customer outcomes (service, safety, building loyalty)

Long-Term Orientation
- Patience: growth deferred until economics justify it
- Targeted expansion for future growth (e.g., renewable energy)
- 70% employee own Fairfax stock → strong alignment with shareholders

Interpretation
No growth is not weakness—it is discipline.
Northbridge is optimizing for long-term value, not short-term premium volume.

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6. Peter Clarke: Scale and Global Optionality

Clarke highlighted two structural advantages:

1. Global Diversification

Strong growth outside North America:
- South Africa: +20%
- Colonnade: +18%
- Asia: +15%
- Polish Re: +15%

This enables:
- Capital reallocation across markets
- Offset to regional pricing pressure
- Sustained overall performance

2. Scale
- ~$33B in premiums
- Broad global platform

Scale improves:
- Risk diversification

- Data and underwriting insight
- Competitive positioning

Interpretation
Fairfax's global footprint is a strategic asset. It allows the company to navigate local cycles while maintaining consolidated strength.

Synthesis: What the AGM Reveals

Across all perspectives, a coherent picture emerges:

1. The Insurance Business Is Now a Core Strength
Not historically true—but now clearly established.

2. Results Are Structural, Not Cyclical
Driven by leadership, culture, and discipline—not market conditions alone.

3. The Organization Is Built for Cycles
- Decentralized decision-making
- Embedded underwriting discipline
- Long-tenured operators

4. Capital Discipline Is Intact
No pressure to grow at the expense of profitability.

5. Global Scale Provides Flexibility
Geographic diversification allows dynamic capital allocation.

Conclusion

The 2026 AGM reinforced a critical conclusion:

Fairfax's P/C insurance platform has matured into a high-quality, structurally advantaged underwriting franchise.

What investors are seeing today is not a peak—it is the visible output of a system built over decades.

As the cycle softens, the real test begins. Based on the evidence presented, Fairfax appears positioned not just to withstand that transition—but to use it as the next stage in long-term value creation.

Transcript from Fairfax's AGM – April 16, 2026 (lightly edited to make it more readable)

Question from Jeff Stacey

Prem and Peter, our first question is about the current insurance environment. The question is as follows. Fairfax had record underwriting profits in 2025 of $1.8 billion and achieved its objective of $1.5 billion. You commented, however, in your shareholder letter that insurance pricing is beginning to soften. I would appreciate hearing any additional comments you might have about the current insurance underwriting environment. And specifically, do you think that Fairfax can still achieve its $1.5 billion underwriting profit target in a soft insurance market?

V. Watsa - Founder, Chairman & CEO

Thank you, Jeff. Peter will usually answer this. But we do have Andy Barnard, Brian Young, Lou Iglesias and Silvy Wright here. So, we'll ask them instead. As Andy makes his way up to speak, let me just say… yesterday I had people ask me: "What is the biggest -- best -- acquisition you've ever made?" The best one is Markel Insurance - the first one (1985) - because otherwise, you're not in the P/C insurance game. And the second best was a small company called Skandia America Re (1996).

And why? Because I had to get someone to run Skandia. I went to New York three times to get Andy Bernard. The first time he said, "You got to be kidding me." Over dinner he said, "I'm not going to leave Transatlantic to come and join Skandia." That's how it began. After a second and third attempt, ultimately, we were fortunate to get him 30 years ago. He's had a huge impact on Fairfax. In 2011, all of the insurance companies began reporting to him. After he started in his new role – 15 years ago (2011) – he said that he hoped that the insurance business will have the same reputation of being fantastic like the investment business that we had at the time. And the investment business did a little less well, and the insurance business has done fabulously well. Andy, over to you. Come on in.

Andrew Barnard - Chairman of Fairfax Insurance Group

Thank you very much, Prem, for all of that. I'm going to let Brian and the others talk about our position, the market and our prospects. As Prem mentioned, I've been in this role now for 15 years, and I thought I'd just give a little brief broad perspective on how I look back on that.

I divide that 15 years, which started in 2011, into two periods. First, 2011 up to 2019. Looking back with the benefit of hindsight – this was a period of preparation. During that period, we added Allied World and Brit – two very powerful new platforms with capabilities that really build out our suite of products. We had Crum & Forrester, bolstering its capabilities. We had a few small acquisitions. Earlier on in that time Northbridge finished its integration, which really positioned it as a much stronger company. And of course, during this time, Odyssey and Zenith flourished. (Yes, Zenith had a few tough years at the beginning.) And we built out the international operation during the latter part of that first period. As Peter mentioned, it has become a significant business that we think will serve us well in the future.

This was really a period of preparation that brought us to 2020. At Fairfax, across our companies, we now had in place excellent leaders, leaders that are fully aligned with Fairfax's culture, that embody the trust, the transparency, the talent that without which our decentralized system could not function. That's all in place as we roll into 2020. Of course, the big thing at the start of the year was the pandemic. A lot of companies heading to the hills, a lot of uncertainty. Plus, we had a very attractive hard market that had already been underway – and I think the pandemic just accelerated it. So, we were at that time in just a unique position because of our structure, our capability, our leadership to thrive. And thrive, we did.

Over the subsequent years, we go into the second period, 2020 up to 2025. From 2020, we virtually doubled our premium volume, and almost all of that was organic with the one exception of GIG. The vast majority of that growth was organic, driven by our companies by their leaderships, by their management teams. And more importantly than that, our underwriting profit over that period more than quadrupled. This is where we really came into our heyday.

Today, to 2026, we're recognized as an underwriting powerhouse in the industry by the marketplace, by the rating agencies. We had huge increases in our ratings over the last 1.5 years.

Looking back on it all over the past 15 years – with the benefit of hindsight – we just positioned ourselves so favorably to really take off when the market conditions were supportive of that strategy.

I believe that what we built is built to last. It is built to withstand the pressures of the market cycle. Those who follow the industry know that we're in a softening cycle where things become more challenging. But we're very confident about our capabilities – about our management abilities – to navigate through some more challenging times and to sustain superior performance as we go into the future from here.

I've been in this industry now for close to 50 years. I've been at Fairfax for 30 years. I'm not going anywhere quite yet. However, my good friend and partner of the last 36 years, Brian Young, is taking on a larger and larger share of the oversight responsibilities in Fairfax. Those of you who have followed Odyssey will know Brian took the helm in 2011. It's very clear that Brian is someone that knows how to make money in this business. And so, I think our future is very, very bright as we move forward from here. So let me turn the microphone over to my friend, Brian Young.

Brian Young - President of Fairfax Insurance Group

Thank you, Andy. I learned some big news a few minutes ago. Andy told me that he is going to be a grandfather for the third time. So big hand to Andy.

I will cover the AI question (from earlier), the current market environment and our ability to generate an underwriting profit in the current environment.

But first I want to highlight, as Peter mentioned, $1.82 billion of underwriting profit in 2025, fractionally higher than $1.79 billion in 2024. Combined ratio of 93%. Embedded in that was 4.8 points of CAT loss or the $1.2 billion, the biggest being the California wildfires in Q1.

Within the 93%, we benefited from 2.9 points of favorable reserve development. And it's important to note that Fairfax has had 19 consecutive years of favorable reserve development for the last 2 decades. Our reserves have been a store of value.

As you all know, all of our companies are really focused on disciplined underwriting and strong reserving. Prudent reserving is really foundational to disciplined underwriting. We have more than 30 operating companies. Nearly all of them equalled or exceeded expectations from an underwriting perspective in 2025. The small number that didn't – we weren't expecting them to make underwriting profits given the market circumstances that they faced.

So, there were no negative surprises in any of our companies. I'd like to highlight a few standout performers, focused first on the big companies. Let's start with the most recent recipient of the Athappan Award, Allied World. Our largest insurance company generating record underwriting profit of $546 million – a fantastic result. Congratulations, Lou and to the team. I'm going to let Lou come up and tell us what the secret sauce is that's made Allied World so successful.

The second company I'd like to highlight is last year's recipient of the Athappan Award, Northbridge. Silvy and team delivered the lowest combined ratio, at 88.3%, of all our big companies. In the last 4 out of 5 years, Northbridge has delivered a combined ratio below 90%. And Silvy will come up after Lou and give us an update on Northbridge.

Turning to the international side. We generated $220 million of underwriting profit, more than double what we generated in 2024. The standout performers – Colonnade, Bryte and Singapore Re – all generated record underwriting profits. Singapore Re, headed by Philippe Mallier, had not only the lowest combined ratio on the international side, they had the lowest combined ratio of all of our companies at 77%. Well done, Philippe.

Our premiums were $33.3 billion. It is slowing down. The market is getting more challenging, no doubt. And we have to exercise more discipline. We have to be more selective in the risks that we take. We have to focus on our line size deployment. But we still think there's opportunity out there in the market. The sectors of the business that are under the most pressure are the ones that have generated the most profit. So yes, the margins are shrinking, but we still think the margins are ok. When the margins are not there - when there is not that margin of safety we need to take on the volatility of insurance – then we're going to scale back. There's no pressure on any of our companies to write for top line growth. And I've experienced that at Odyssey working there for 28 years, leading it for 14 years, never did I or any of our people have any pressure to write for top line.

On the question of AI, it's important in our decentralized structure, innovation comes from the ground. It can't be forced from the top down. And we've got 30-plus wonderful businesses. Everyone is focused. AI may well be very transformative. We're not at the cutting edge, and we don't really want to be at the cutting edge. We're where we think we need to be in the pack with the rest of the insurance industry.

To understand and take advantage of the innovative things that we're doing at the company level, we formed an AI working group, across the Fairfax organization. We have more than 75 people participating in the working group. We have developed more than 100 use cases. We have a SharePoint site. If we develop a use case in a company in a certain part of the world, we can share that with the other companies through the forum, through the SharePoint site.

In terms of the AI use cases, most of them have really been focused on improving process, doing things faster and smarter – trying to underwrite more business efficiently through the use of AI. Using AI to inform our underwriting decisions.

Marc Adee (President of Crum and Forster) has used the phrase, and I think it's great, does AI bang the cash register, does it lower your loss ratio, does it lower your expense ratio? I would say right now we're not banging the cash register yet. With AI, we are able to underwrite more business using the tool than previously. Lowering the loss ratio, lowering the expense ratio in terms of the AI tools that we're using, that's really the focus.

And I think lastly, it's really important to say, and Prem has emphasized it ad nauseam that AI will not cost us any jobs. We don't believe in laying off employees. Period. And that includes AI. If AI allows us to operate more efficiently then maybe the rate of growth in our employee count will slow down, which will help the expense ratio. But it won't come at the expense of people.

Thank you. Now I would like to turn it over to Lou.

Louis Iglesias - President of Allied World

Thank you, Brian. Great to see everybody. It's good to see so many of you, I only get to see once a year and talk about our businesses here at Fairfax and at Allied. And it's also not every day that I feel like Allied World has won the Stanley Cup. So we're really proud of that as well.

Brian mentioned our underwriting profit. We did have a record year last year on underwriting profit. We also had a high watermark on our net income. And I just want to recognize the investment group at Fairfax, who does a tremendous job on our portfolio. Having that type of net income really helps our cash flow and everything else. So, it's really, really good to see.

We grew our company to $7.4 billion last year. And Brian talked about the market a bit. It is softening some. I would say it's getting a little bit more price competitive. But for those of you who've been with our industry for a long time, it's not a traditional soft market. We're not bottoming out.

Terms and conditions are holding pretty well. Combined ratios don't have so much pressure on them, still manage the profitability. There are opportunities around the world to be able to get some growth. So we're not giving up on that because I think there are certainly some opportunities.

What I wanted to talk about just for a couple of minutes is what are some of the things that we do to help us manage the cycle. We feel like we've built a company that could perform in all segments of the cycle. And in order for that to happen, we have to execute on many strategies every single day. The company has to be structured in a way to give us that ability. There are a couple of things in there.

The first thing to talk about is the structure of having a very flat organization. You see that elsewhere in Fairfax. We have a very flat organization at Allied. We don't have many layers. So strategies and communication moves quickly. This gives us the opportunity to move fast in different

marketplaces around the world. So as the markets change, we can change strategies. We can execute on those strategies.

Our underwriters are at the desk since there's not lots of layers. They don't have to get multiple sign-offs to do their job to able to make a decision. We run with the mantra of hire really great people. And give them the authority and accountability to be able to get the job done.

Additionally, we have product diversity – over 40 products. We are in 29 offices around the world – 11 countries and 4 continents. We're expanding our presence around the world geographically. So, the earnings stream is very diverse. And when we have that type of diverse earnings stream it really limits earnings volatility. So when the market starts to get a little bit tougher, it's really helpful to have different earnings streams because you may have to slow some down. If you're not getting the marketplace that you like in a certain product or a certain country, you're going to have to slow that down, but maybe there's an opportunity someplace else. So the diverse earnings stream is really very helpful. And I think you see that throughout Fairfax as well.

The third thing that I would touch on is underwriting discipline. Underwriting discipline helps in every marketplace, whether it's a hard market, soft market in the middle. It's extremely important. It runs through every Fairfax company. It's part of the culture of Fairfax.

Now what does that mean really? Our underwriters understand rate adequacy, they understand when they're negotiating a deal, where that rate crosses the line to not being enough for the exposure that they're taking on. When we run into that situation, we have the ability to say no. We say no a lot more than we say yes.

But what we really prefer to do is to say, "No, we don't like the deal that way, but we do like it this other way. And we'll put a proposal out that works for us, and we hope works for the client. And we've been able to do business like that and sell deals like that fairly often, even in this marketplace when things are getting just a little bit softer. So that's been very helpful.

Now nothing works without great people. And every year, I come up here, and I think I talk about how great the people are at Allied. We've had people with us for a very long period of time. They've seen all different cycles, so they understand how to manage in and through the different cycles. And we have a very low attrition rate at the company. So our people are really the key to making all the strategies work.

And so for us, we're going to continue to do the things that we're good at. As the markets soften some, we're going to limit our mistakes so that when the market does get to a better place, we can do all the things that Andy talked about that we did a couple of years ago and not have any distractions.

Thank you very much, everybody. Have a great day.

Silvy Wright - President of Northbridge Financial

Good morning, everyone. First, I'll start with a little confession to Lou. Northbridge employees wanted to do a Rory McIlroy (repeat as winners of the Athappan Cup), but we are happy that Allied World won this year.

First a little perspective on Canada. Northbridge represents the Canadian insurance operations for Fairfax. With $3.4 billion in revenue, we're the third largest commercial insurer in Canada. We have a very good position - maybe a smaller fish at Fairfax but a bigger fish in this country.

What are market conditions? What happened in '25, as Lou said, the price competition really started to ramp up. And we're starting to see competitors trying to buy business. And sorry, I apologize for being a broken record, but once again, we are not pressured to write premium at a loss. And so, in 2025, our employees did the right thing. They remained disciplined, not only in underwriting but claims and expense management. But equally important, we doubled down on really focusing on customer loyalty, customer service and customer safety. So not only be there when things go wrong, but we're trying to help our customers have safer operations.

As a result, we did not grow in 2025. However, we did have a record year, as Brian noted. In 2026, it looks like the price competition continues and we will manage accordingly. Along with just being disciplined, we're also looking at building areas where we can grow when it's the right time to grow. For instance, increasing our lines on renewable energy in Canada. So just manage the market and then be ready to go when it's time.

And one more comment. We talked about the culture many times and the beautiful word of being empowered not just at the president level, but throughout the company. I just wanted to share with you that our employees are like you, they're shareholders. Over 70% of our employees at Northbridge are shareholders. So not only are they empowered but they're owners in doing the right thing. Thank you.

V. Watsa - Founder, Chairman & CEO

Thank you very much Silvy. Peter, anything to add, final words, on the insurance industry?

Peter Clarke - President & COO

Sure. Just two quick things, Prem. And I mentioned in my remarks that we write $33 billion of premium across the world and that grew by 2.3% this year.

It's interesting when you look at the international operations and how we benefit from diversification and scale. Bryte in South Africa grew 20% this year, Colonnade 18%, Asia was up 15% and Polish Re was up 15%. And so even though North America rates are coming down, we're maybe not growing as much, we have all these opportunities around the world.

Secondly, I just have to comment that we have 2 cups in Fairfax. One is the Mr. Athappan Cup. And we also have a hockey game between the Fairfax head office and the Allied World Group, and unfortunately, now Allied owns both cups for this year and I have to say it did come into the evaluation process a bit, but we left that aside.

Fairfax's Insurance Subsidiaries

Summary of Fairfax's insurance subsidiaries:

- Allied World
- Brit Insurance
- Digit
- Gulf Insurance Group
- Odyssey Group

Allied World

October 12, 2023

With underwriting profit of $389 million, the top performing insurance sub at Fairfax in 2022 was Allied World. Fairfax purchased Allied World back in 2017 for $4.9 billion (at 1.3 x book value). Fairfax made a number of acquisitions in 2015 (Brit), 2016 (international) and 2017 (Allied). Of all the purchases, Allied was, by far, the largest.

To help fund the purchase of Allied, Fairfax partnered with OMERS, AimCo and 2 other investors.

What was the funding split? Fairfax = 67.4% and OMERS/AimCo/others = 32.6%

To help fund its purchase of Allied World in 2017, Fairfax also issued a little over 5 million shares at $433/share. From 2018 to 2022, Fairfax repurchased 4.4 million shares at an average cost of $464/share. Fairfax has been very opportunistic in recent years buying back shares at very attractive prices. As a result, the significant dilution caused by the Allied World acquisition has almost been entirely reversed. And Fairfax now owns a larger stake in a company that has more than doubled in size over the past 5 years.

The acquisition of Allied World in 2017 was very opportunistic: the company was purchased at 1.3 x book value and right before the onset of a hard market (which began in late 2019 and continues in 2023). Bringing in minority partners to help fund the purchase was very creative. I must admit I still do not understand all the puts and takes of the deal with OMERS/AimCo - the deal carries a high cost (8% dividend?) but allows Fairfax the ability to increase its ownership when it has the cash.

Over the past 6 years Fairfax has purchased about 50% of the minority interest held in Allied. Today, Fairfax owns 83.4% of Allied and minority shareholders own 16.6% (down from 32.6%).

- In 2022, Fairfax's largest 'investment' was the $733 million spent to increase its ownership in Allied from 70.9% to 82.9%.
- In Q2 2023, Fairfax spent $30.6 million to increase their ownership of Allied to 83.4%.

Fairfax has the option to purchase the remainder of Allied World from the minority partners until September of 2026 (this option was extended by 2 years in Q2, 2023).

Increasing its ownership in Allied World is a solid move for Fairfax shareholders as they will own a larger percentage of Allied World's growing earnings. Some on this board have stated Fairfax buying out minority shareholders is similar to buying back shares of its own stock. It is a low risk and solid return use of capital for Fairfax.

How much would Allied World be worth today as a stand-alone company?

- Net written premiums (2023 est) = $4.9 billion
  - Estimated underwriting profit at a 95% CR = $245 million
- Investment portfolio (Dec 31, 2022) was $11.5 billion
  - Estimated total investment return at 6% = $690 million

Interesting factoid: The purchase of Allied World did not start out well. The deal closed in July of 2017. Then 3 major hurricanes hit the US. In the 2H-2017, Allied World booked a $600 million pre-tax loss at Fairfax. Ouch!

Link to video: Overview of Allied World (from company's web site)

https://alliedworldinsurance.com/wp-content/uploads/sites/2/2023/01/Our-Culture-2023.mp4

Prem's comments about Allied World from Fairfax's 2022AR.

"Allied World produced $389 million of underwriting profit in 2022 from a combined ratio of 91%, also its best performance as a Fairfax company. After growing net premiums written 14% last year, Allied is now double in size from when we purchased it in 2017. Allied's expense ratio continued to decline in 2022, now running at an industry leading 20%. Lou Iglesias and his management team have done an outstanding job aggressively expanding over the last several years in the market segments which experienced the strongest growth." *Prem Watsa – Fairfax 2022AR*

The table below shows our growth since 2017, after we had purchased Allied World and in the midst of a hard market in insurance that began in 2019:

	Gross Premiums Written			Average
	2017	2022	% change	Combined Ratio
	($ billions)			
Northbridge	1.2	2.3	95%	92%
Odyssey Group	2.7	6.6	141%	96%
Crum & Forster	2.1	4.6	116%	97%
Brit	2.0	4.0	93%	102%
Allied World	3.1	6.5	110%	94%
Total	13.8	27.6	99%	96%

The table below shows you how our significant increases in gross premiums written have resulted in a significant increase in our float and in our investment portfolio. This is magnified on a per share basis as a result of the reduction in our outstanding shares through share buybacks which have reduced our shares outstanding by 16% over the last five years, from 27.8 million at the end of 2017 to 23.3 million at the end of 2022:

In the 2022AR, Fairfax explains the accounting mechanics of the take-out of minority partners.

"On September 27, 2022 the company increased its ownership interest in Allied World to 82.9% from 70.9% for total consideration of $733.5, inclusive of the fair value of a call option exercised and an accrued dividend paid, and recorded a loss in retained earnings of $228.1 in net changes in capitalization in the consolidated statement of changes in equity. The decrease in carrying value of Allied World's non-controlling interests primarily reflected the company's increased ownership interest in Allied World, dividends paid and the non-controlling interests' share of Allied World's net loss. On April 28, 2022 Allied World paid a dividend of $126.4 (April 28, 2021 – $126.4) to its minority shareholders. The company has the option to purchase the remaining interests of the minority shareholders in Allied World at certain dates until September 2024." *Fairfax 2022AR*

Summary of the key details regarding the acquisition of Allied World from Fairfax's 2017AR.

"Acquisition of Allied World Assurance Holdings AG: On July 6, 2017 the company completed the acquisition of 94.6% of the outstanding shares of Allied World Assurance Company Holdings, AG ("Allied World AG") for purchase consideration of $3,977.9, consisting of $1,905.6 in cash and $2,072.3 by the issuance of 4,799,497 subordinate voting shares. In addition, Allied World AG declared a special pre-closing cash dividend of $5.00 per share ($438.0). Contemporaneously with the closing of the acquisition of Allied World AG, Ontario Municipal Employees Retirement System ("OMERS"), the pension plan manager for government employees in the province of Ontario, Alberta Investment Management Corporation ("AIMCo"), an investment manager for pension, endowment and government funds in the province of Alberta, and certain other third parties (together "the co-investors") invested $1,580.0 for an indirect equity interest in Allied World AG. The remaining 5.4% of the outstanding shares of Allied World AG were acquired on August 17, 2017 for purchase consideration of $229.0, consisting of $109.7 in cash and $119.3 by the issuance of 276,397 subordinate voting shares, in a merger transaction under Swiss law pursuant to which Allied World Assurance Company Holdings, GmbH ("Allied World") became the surviving entity. This merger resulted in the co-investors holding an indirect ownership interest in Allied World of 32.6%. The co-investors will have a dividend in priority to the company, and the company will have the ability to purchase the shares owned by the co-investors over the next seven years. Allied World is a global property, casualty and specialty insurer and reinsurer."

"As you can see, while this acquisition increased our gross premiums, investment portfolio and common equity by about 30%, our shares outstanding grew by only 22%. Although we issued the Fairfax shares at a 6% premium to book value while we purchased Allied World at a 32% premium to book value, we are confident that the high quality of Allied World, let by Scott Carmilani, will make this an excellent acquisition for us, but we were not pleased at issuing our shares at only a 6% premium to book value." *Fairfax 2017AR*

We closed our acquisition of Allied World on July 6, 2017 and we welcomed Scott Carmilani and Allied World's 1,430 employees to the Fairfax family. As you know, Allied World is the largest acquisition that we have done and we pursued this acquisition because of Allied World's outstanding track record over its 15 years of existence and the quality of its management team. We are very thankful to our financing partners OMERS ($1 billion), AIMCO ($0.5 billion) and two others. We issued a total of 5.1 million shares for Allied World. The effect of this acquisition is shown in the table below, which was previously presented to you at our 2017 annual shareholders' meeting:

($ billions)	**Fairfax**	**Allied World**	**Combined**	**% Change**
Gross premiums written	10.2	3.1	13.3	30%
Investment portfolio	27.4	8.7	35.3(1)	29%
Common shareholders' equity	8.5	3.6	10.9(1)	28%
Shares outstanding *(millions)*	23.1		28.2	22%
Investments per share *($)*	1,186		1,250	5%

(1) Combined numbers adjusted for financing and goodwill

In May 2023, AM Best upgraded the credit ratings of Allied World.

AM Best Upgrades Issuer Credit Ratings of Fairfax Financial Holdings Limited, Its Subsidiaries and Allied World Assurance Company Holdings, Ltd.

"Furthermore, AM Best notes that Allied World's **operating performance has been on a steadily positive trajectory for the last five years**, reflecting broad rate improvement across many of the company's key business lines, as well as **changes in underwriting strategy**. Notably, the company has **reduced its catastrophe exposure, which has reduced volatility**. AM Best expects that Allied World's risk-adjusted capitalization as measured by the Best's Capital Adequacy Ratio (BCAR) will continue to be supportive of the overall balance sheet assessment, supported by capital growth from operating earnings and supplemented by an eventual recovery of equity and fixed income markets prices over time.

https://www.businesswire.com/news/home/20230503005889/en/AM-Best-Upgrades-Issuer-Credit-Ratings-of-Fairfax-Financial-Holdings-Limited-Its-Subsidiaries-and-Allied-World-Assurance-Company-Holdings-Ltd

Brit Insurance

April 29, 2024

Brit Insurance publishes its own financial reports. These reports provide a wealth of information on the company:

Brit 2023AR: https://www.annualreports.com/HostedData/AnnualReports/PDF/LSE_BRE_2023.pdf

Brit Web Site: https://www.britinsurance.com

Ki Web Site: https://ki-insurance.com

For Fairfax's various insurance operations, the 'surprise performance award' for 2023 goes to Brit Insurance. Importantly, the surprise this year was a very good one for Fairfax shareholders.

In 2023, Brit delivered group profit after tax of $895.4 million. This is a monster number.

- Insurance operating results (ex-discounting) = $405.7 million; CR = 85.3
- Investment return = $394 million = 6.2%
- Gain on sale of Ambridge = $259.1 million

Dividends paid

During 2023, Brit paid dividends totalling of $413.6m (2022: $18.7m) in accordance with the Brit Limited shareholders' agreement.

- Class A shareholders (OMERS) = $40.6m (2022: $18.7m)
- Class B shareholders (Fairfax) = $373.0m (2022: $nil)

Despite this payment, Brit's "capital position remains strong, with a surplus over management entity capital requirements of $1,050.5m or 54.5% (2022: $709.8m or 39.9%)." *Source: Brit's 2023AR*

On 21 March 2024, interim dividends of $187.9m were declared, of which:

- Class A shareholders (OMERS) = $12.9m
- Class B shareholders (Fairfax) = $175.0m

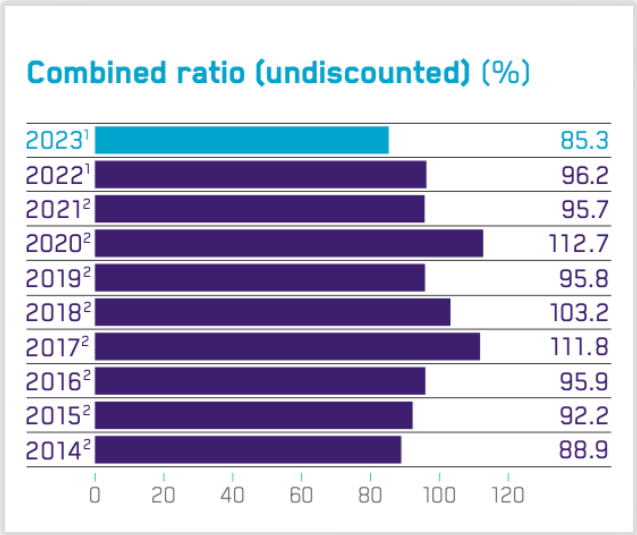
A total of $601.5 million has been paid in dividends by Brit over the past 15 months.

Other Notes:

"Highly successful third year of trading for Ki, recording insurance premium written of $877.0m (2022: $834.1m), a combined ratio after discounting of 83.2% (2022: 91.1%) and an undiscounted combined ratio of 89.4% (2022: 95.0%)." *Source: Brit's 2023AR*

Why was Brit the recipient of the 'surprise performance award' in 2023?

Over the 2 years of 2017 and 2018, Brit had an average combined ratio of 107.5%. Pretty bad. However, the company was executing an improvement plan and in 2019 the CR improved to 95.8%. But Brit was hit especially hard by Covid in 2020 (due to legal rulings in the UK) and the CR jumped to 112.7% in 2020. In 2023, Brit successfully executed a plan to reduce its catastrophe exposure and exit underperforming businesses. The CR in 2023 was a stellar 85.3%. It will be interesting to see how Brit does in 2024. Let's hope they can continue the strong performance.



Context

As a reminder, Brit was purchased by Fairfax in 2015 for a total of $1.657 billion. So, the fact the company earned $895.4 million in 2023 is significant.

Ownership Structure of Brit at December 31, 2023

At December 31, 2023, Fairfax owned 86.2% of Brit and OMERS owned the remaining 13.8%.

Below is my understanding of how the partnership agreement with OMERS works. My notes are based on Jen Allen's comments made on Fairfax's 2023YE conference call. She was referencing Odyssey and my assumptions is the Brit/OMERS deal is structured in a similar manner:

- The shares are classified as equity under IFRS.
- Fairfax has no obligation to redeem those shares.
- Fairfax has a call option - this gives Fairfax the option to buy back OMERS stake at a specified price within a specific time period. "Fairfax has the option to purchase OMERS' interest in Brit at certain dates from October 2023." Source: Brit's 2023AR
- OMERS does not have the right to put the shares back to Fairfax, and Fairfax is under no obligation to exercise its call options.
- After Fairfax's call options expire, a minority investor may IPO their shares or, failing that, request sale of the operating company with a priority on the proceeds.
- OMERS receives a dividend payment each year.

The current deal with OMERS was struck in 2021. Fairfax was paid $375 million and OMERS received an ownership interest of 13.8% in Brit. In Fairfax's 2023AR, under 'non-controlling interests,' OMERS 13.8% stake in Brit has a carrying value of $881.2 million (2022: $736.4 million).

What will it cost Fairfax to take out OMERS and what will the accounting look like?

I am not sure how the accounting will work when Fairfax takes OMERS out. When Fairfax bought a chunk of Allied World back in 2022 there was a sizeable write down to equity (see quote below). Perhaps we see something similar here.

Fairfax 2023AR: "On September 27, 2022 the company increased its ownership interest in Allied World to 82.9% from 70.9% for total consideration of $733.5, inclusive of the fair value of a call option exercised and an accrued dividend paid, and recorded a loss in retained earnings of $163.3 in net changes in capitalization in the consolidated statement of changes in equity."

The value of the call options for Fairfax at Dec 31, 2023: In 'Other Assets', the value of 'call options on non-controlling interests' = $306.6 million (2022: $167.4 million). This total is for Brit, Allied World and Odyssey. See quote below for more information.

Fairfax 2023AR: "Comprised of call options on the non-controlling interests in Allied World, Brit and Odyssey Group, which expire in 2026, 2027 and 2029, respectively. At certain dates subsequent to expiry of a call option, the non-controlling interests may request an initial public offering of their shares, the structure, process and timing of which will be controlled by the company; in certain circumstances, the non-controlling interests may request a sale of the respective operating company to a third party."

Pocket guide to Lloyd's of London

- https://assets.lloyds.com/media/fe594686-4cc1-4f4d-92ca-b013225d3cfb/Lloyd's_pocket_guide_v11Oct23.pdf

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2023 - A Record Result - from page 1 of Brit's 2023AR

- Group profit after tax (including discontinued operations) of $895.4m (2022: $308.9m).
- Profit on ordinary activities before tax, FX and discontinued operations of $720.3m (2022: $281.3m).
- Return on net tangible assets on all operations of 51.9% (2022: 12.6%) and return on net tangible assets on continuing operations of 41.7% (2022: 12.9%).
- Combined ratio for continuing business after discounting of 76.2% (2022: 88.5%) and an undiscounted combined ratio for continuing business of 85.3% (2022: 96.2%).
- Insurance operating result, excluding the impact of discounting, was a profit of $405.7m (2022: $93.9m), and the result including the impact of discounting was a profit of $423.7m (2022: $492.5m).
- Insurance premium written for 2023 of $3,753.5m, a reduction of 5.5% over 2022 ($3,970.0m) at constant rates of exchange, reflecting market conditions in certain classes, the implementation of our catastrophe strategy, and our continued focus on improving our performance by exiting underperforming business.
- Investment return was a strong $394.4m or 6.2% (2022: loss of $132.1m or -2.3%).
- Result from discontinued operations after tax totalled $266.2m (2022: $21.7m), including the gain on sale of Ambridge of $259.1m.
- Capital position remains strong, with a surplus over management entity capital requirements of $1,050.5m or 54.5% (2022: $709.8m or 39.9%), after dividend payments in the year of $413.6m. A significant proportion of our investment portfolio remains invested in cash and fixed income securities (2023: 85.8%; 2022: 85.1%).
- Highly successful third year of trading for Ki[3], recording insurance premium written of $877.0m (2022: $834.1m), a combined ratio after discounting of 83.2% (2022: 91.1%) and an undiscounted combined ratio of 89.4% (2022: 95.0%).
- Overall market conditions continued to harden, albeit at a reducing rate, and we achieved risk-adjusted rate increases of 7.1%, bringing the compound increase since 1 January 2018 to 65.1%.
- Key developments include:
  - Completion of the sale of the Ambridge MGA companies;
  - Agreement to sell our holding in Canadian MGA Sutton, which completed post year end on 8 March 2024;
  - Execution of our catastrophe strategy, reducing our Property portfolio's gross exposure to such events;
  - Launch of Ki's enhanced offering allowing brokers to access third-party digital capacity from multiple syndicates directly through the Ki platform;
  - Continued focus on our customers through claims innovation;
  - Continued focus on our digital, data and AI strategy; and
  - Adoption of IFRS 17 'Insurance Contracts'.

Message from Martin Thompson, Group CEO - from page 6 of Brit's 2023AR

Brit has delivered an excellent result for 2023, with a strong underwriting and investment performance.

Our undiscounted combined ratio of 85.3%, a 10.9 percentage point improvement from 2022, reflects the strength of Brit's underwriting teams and the successful execution of our catastrophe strategy, as well as a year of more benign major loss activity. Our discounted combined ratio reduced to 76.2% (2022: 88.5%).

Overall, market conditions have remained broadly positive, and we achieved risk adjusted rate increases of 7.1%. In total, we have seen compound increases since 1 January 2018 of 65.1%. While we have continued to achieve rate increases in most of our underwriting portfolios, in some lines we are seeing increased competition and rate reductions, putting pressure on premium income. We remain vigilant to this and continue to closely monitor our underwriting approach as we maintain our focus on cycle management.

Against this backdrop we have remained highly disciplined and focused on underwriting profitability. This is reflected in a slight reduction in the Group's overall insurance premium written to $3,753.5m (2022: $3,970.0m), mainly driven by market conditions in certain classes, the implementation of our catastrophe strategy, and our continued focus on improving our performance by exiting underperforming business.

In its third year of trading, Ki's insurance premium written increased by $42.9m to $877.0m and continued to make a positive contribution to the Group. Ki has further driven change in the Lloyd's market including the evolution of Ki's business model, allowing brokers to access digital capacity from multiple Lloyd's syndicates directly through the Ki platform, made possible through multi-year partnerships with capacity partners.

On 10 May 2023, Brit completed the sale of Ambridge, its US and European based managing general underwriter (MGU) to Amynta Group, recording a gain on sale of $259.1m.

In November 2023 we also entered into an agreement with Amynta to sell Sutton, the Canadian MGU in which we have a 49% interest, which closed on 8 March 2024. We believe it was the appropriate time to realise the value of our investments in Ambridge and Sutton as we focus on our strategic priorities: our core underwriting capabilities and our investment in building out our market leading digital capabilities. Importantly, Ambridge, Sutton and Amynta remain key partners for Brit, and we look forward to a long and deep underwriting relationship with them as an independent MGUs.

Our ability to deliver a best-in-class claims service is an important differentiator for Brit. We continued to support our clients when they need it most, with innovation at the heart of our claims approach, as demonstrated with our response to the 2023 Hawaiian wildfires and other major loss events. We were delighted that this resulted in our claims team being recognised in winning a number of prestigious industry awards.

Looking ahead, our aspiration for the Group is to be a long-term winner in the Lloyd's market, supported by our clear strategic focus on driving performance and profitability. Our 2023 results show we have the foundations from which to achieve this. Through Syndicate 2987 we are a highly relevant lead market, while Ki is demonstrating the future of follow. In 2024 we will continue to invest in our technology strategy, broker relationships and underwriting capabilities to build on the established leadership positions of these respective parts of the Group, while retaining our long-term focus on careful management of the insurance cycle.

While we remain mindful of shifting market dynamics, this positioning gives me great confidence in the outlook for Brit. Underpinning this confidence is our special and unique culture and I am proud of Brit's reputation for fostering diverse talent. I would like to thank all my colleagues at Brit for their contributions over the last year, as well as our brokers and partners in the market for their ongoing support.

Martin Thompson
Group Chief Executive Officer

Message from Gavin Wilkinson, Group CFO - from page 7 of Brit's 2023AR

This is our first annual report following the implementation of IFRS 17 'Insurance Contracts' on 1 January 2023. This new accounting standard has not changed the way we evaluate the performance of our insurance and reinsurance operations. The Company remains focused on underwriting return on an undiscounted basis, while maintaining a strong balance sheet. We continue to use the traditional volume measure of premium written, and the performance measure of the combined ratio.

In 2023, Brit delivered both a strong underwriting result and a strong investment performance. Brit's profit after tax for continuing operations was $629.2m (2022: $287.2m), while profit for the year including discontinued operations totalled $895.4m (2022: $308.9m). Our return on net tangible assets (RoNTA) for all operations, excluding the effects of foreign exchange, was an excellent 51.9% (2022: 12.6%), and for continuing operations was 41.7% (2022: 12.9%).

Our insurance operating result, excluding the effects of discounting, was $405.7m (2022: $93.9m), and after the impact of discounting was $423.7m (2022: $492.5m). This result, together with our undiscounted combined ratio of 85.3% (2022: 96.2%), reflected good underwriting discipline, rigorous risk selection, reduced major loss activity and healthy compound rate increases.

The Group had reduced major losses in the period, with best estimate reserves of $69.6m established for the Hawaiian wildfires and Hurricane Idalia, benefiting from our catastrophe strategy and a more benign year of activity (2022: $338.5m arising from Hurricane Ian, Australian floods, Winter Storm Elliott and claims arising from the Russian invasion of Ukraine).

In the period, our overall prior year reserves were broadly unchanged. As part of our standard reserving process, we released $3.0m (2022: $1.7m) of our overall net best estimate reserves established for prior year claims before the movements in the risk adjustment and before the impact of discounting. This reflected releases across Financial and Professional Liability, Property Treaty, Programmes and Facilities, and Specialty, partly offset by strengthening in Ambridge Transactional, Casualty Treaty and Ambridge Re.

Our return on invested assets net of fees was a strong $394.4m or 6.2% (2022: loss of $132.1m or -2.3%), with all investment classes other than derivatives contributing to this return. The result reflects market conditions, with strong yields and positive equity market performance.

Our balance sheet remains strong, with adjusted net tangible assets of $2,516.0m (31 December 2022: $2,025.1m), after paying dividends to our shareholders of $413.6m (2022: $18.7m) during the year. Our management capital surplus increased to $1,050.5m or 54.5% (2022: $709.8m or 39.9%) over our Group management capital requirement of $1,927.4m (2022: $1,777.7m), reflecting the impact of the movement in interest rates on our capital requirements, and our result for the period.

Our investment portfolio remains conservatively positioned. It includes a large allocation to debt securities and cash and cash equivalents ($5,784.0m or 85.8%), while Brit's equity and structured product allocation stands at $965.6m, or 14.3%. At 31 December 2023, 82.3% of our invested assets were investment grade quality (31 December 2022: 82.2%) and the duration of the portfolio was broadly neutral compared to the duration of our liabilities. At 31 December 2023, the running yield of our total portfolio was 4.0% (2022: 4.0%).

We continue to monitor the impact of inflation across our underwriting portfolio and reserves, with work being undertaken collaboratively across Underwriting, Actuarial, Risk and Claims. In the 2023 full-year reserving exercise the Actuarial team has maintained its approach of considering the impact of our forward-looking expectations for claims inflation on our reserves.

We continued to experience positive underwriting conditions and favourable market developments in 2023, though underwriting conditions in certain classes are becoming more challenging. The world faces ongoing volatility, challenges arising from inflation, and continuing uncertainty from global events. The insurance market also continues to evolve and we believe that our strategy, discipline, market position and financial strength make us well placed to take advantage of opportunities as they arise.

Gavin Wilkinson
Group Chief Financial Officer

Crum and Forster: Link to 'The Once and Future C&F' Book (2024)

In 2024, the Crum and Forster published a book, called The Once and Future C&F, to chronicle the company's 200-year journey.

The Once and Future C&F

Click the link to get a free PDF copy of the book:

- https://www.cfins.com/the-once-and-future-cf-landing/

A summary of the book from Crum and Forster's web site:

The Once and Future C&F by Chairman and Chief Executive Officer Marc Adee chronicles Crum & Forster's journey through more than two centuries of innovation, resilience, and leadership in the insurance industry. Celebrating Crum & Forster's rich history, *The Once and Future C&F* shares the company's enduring commitment to excellence that has defined C&F for over 200 years. Any student of insurance and those employed in the industry will find it interesting to explore how the company and the industry managed through some of the most challenging markets.

From its humble beginnings as a New York fire insurance company to its status as a market leader in property & casualty, accident & health, and specialty insurance solutions, this book delves into the pivotal moments and the leaders that have shaped the company's legacy.

Join us on this unique journey through time, and gain insights into the strategic vision and unwavering dedication that have helped make Crum & Forster a trusted name in insurance, a great place to work, and a great company to work with.

Digit Insurance

March 15, 2025

After the successful completion of the IPO in May, 2024, Fairfax owns about 60% of Digit Insurance.

Prem's comments about Digit from Fairfax's 2024AR.

"As planned, Kamesh Goyal led a very successful IPO for Digit Insurance on May 23, 2024 at Rs272 per share with a market cap of $3 billion. After selling 6.3% and Digit Insurance raising new capital through an IPO, Fairfax owns indirectly approximately 60% of Digit Insurance. Until the Digit Insurance company and holding company are merged, we have not reflected the mark-to-market gain on our 49% of common shares in Digit ($110 million as of December 31, 2024). From a standing start seven years ago, Digit has 4,500 employees, $1.2 billion in premium and net profit of just under $100 million in 2024. Kamesh and Digit are on their way!" *Prem Watsa – Fairfax 2024AR*

July 31, 2023

Digit has become one of Fairfax's best investments ever. And it has the potential to become THE best investment ever. Yes, I know, big words. If that is the case, then why is the write up on Digit so short? Digit is a great example of one of the big shortcomings with this document - it is missing a lot of important information. The reader needs to keep this in mind.

For a little more information on Digit go to 'Chapter 12: Geographies' and read the post on India.

How has Fairfax's investment in Digit performed?

Fairfax's investment in Digit has a total cost of $154 million. Fair value at December 31, 2023 is 2.278 million. Fairfax's investment in Digit is up $2.1 billion for a compound annual return of 79.5%. Spectacular. The table below is from the 2022AR.

The table below shows our investments in India and how they have performed up to December 31, 2022:

	Date of Initial Investment	Ownership	Cost	Fair Value at December 31, 2022	Compound Annualized Return
Thomas Cook India	Aug-12	73.3%	315	293	10.7%(1)
Fairfax India	Jan-15	41.6%	534	703	4.3%
Digit	Feb-17	49.0%	154	2,278	79.5%
Quess	Dec-19	30.1%	335(2)	222	(7.1)%
Other			365	308	
			1,703	3,804	

Prem's comments about Digit from Fairfax's 2022AR.

"Digit, led by Kamesh Goyal, had another strong year: after only five years since its inception, premiums are over $900 million, up 50% over the last 12 months in local currency, and with the benefit of investment income it had another profitable year. Digit entered the Fortune India magazine's ranking of India's 500 largest companies by total revenue during the year at 398th on the list – we expect that will move up going forward! Digit is exploring an IPO in 2023 which would fund future growth." *Prem Watsa – Fairfax 2022AR*

Prem's comments about Digit from Fairfax's 2021AR.

"Digit, under Kamesh Goyal, continued its exceptional performance in 2021 as a start-up (five years ago), with gross premiums expected to be up 50% to $700 million for the year ending March 2022. Recently, Kamesh raised $200 million, valuing Digit at $3.5 billion – the first unicorn in India in 2021. Unlike many unicorns, Digit is already profitable. As you will see later, this capital raise, including Sequoia (awaiting regulatory approval) and Wellington among its investors, contributed $1.5 billion to our net gains in 2021. More to come we think!" *Prem Watsa – Fairfax 2021AR*

Gulf Insurance Group

Updated: December 14, 2023

KIPCO announced the closing of the sale of their 46.3% interest in the Gulf Insurance Group (GIG) to Fairfax. Fairfax's equity interest in GIG increased from 43.7% to a controlling interest of 90.0%.

KIPCO completes the sale of its 46% stake in GIG to Fairfax Financial Holdings

https://kipco.com/kipco-completes-the-sale-of-its-46-stake-in-gig-to-fairfax-financial-holdings/

Based on the financial details that were provided in Fairfax's Q3 interim report, Fairfax is making an upfront payment of around $177 million. And then 4 equal annual payments of $165 million, beginning Dec 14, 2024.

"The company's acquisition of all of KIPCO's shares in Gulf Insurance will be for aggregate fair valuation consideration of approximately $740 (approximately 227 million Kuwaiti Dinar), to be paid as approximately $177 in cash ($200.0 less dividends of approximately $23 received by KIPCO during the second quarter of 2023) and the fair value of approximately $563 in a payment deed."

Fairfax Q3 Interim Report

Fairfax will book a significant gain of around $290 million when it reports Q4 results.

"Accordingly, the company anticipates that upon closing it will consolidate the assets and liabilities of Gulf Insurance and will record a pre-tax gain of approximately $290, with changes in the company's carrying value of its equity accounted investment in Gulf Insurance up until the date of closing affecting the pre-tax gain." *Fairfax Q3 Interim Report*

The structure of the deal is very creative – it appears a large part of the 4 equal annual payments of $165 million could be funded each year via dividend payments from GIG to Fairfax.

"We structured it (the deal) in a way that perhaps a lot of it (annual payments) will come from the company itself, dividends from the company." *Prem – Fairfax Q1, 2023 Conference Call*

This purchase will be an important growth driver for Fairfax's results in 2024. The timing of the news is important (before year-end), so we will get more complete details of the financial impact on Fairfax when they report Q4 results in Feb 2024. Now that the deal has closed, analysts can include GIG in their estimates for Fairfax for 2024.

Below are highlights of GIG's full year financial results from 2022:

- Net premiums written $1.7 billion

- Underwriting surplus $164 million
- Total Investments $2.4 billion
- Shareholder's equity $748 milion
- Net profit $125 million

Some random thoughts on the GIG purchase:

- Fairfax goes from being a minority shareholder in GIG to the controlling shareholder. This is a big deal.
- Strategically, this secures Fairfax's position as one of the leading P/C insurance providers in the Middle East North Africa (MENA) region. This is a big deal. Gulf economies, with young and growing populations, are expected to be strong growers in the coming decade. Growing economies should be good for an insurance business.

This purchase highlights a couple of strengths of Fairfax:

- International - this has been a growing part of Fairfax's insurance business for 20 years
- Partner with leading organizations - in this case KIPCO
- Long term focus - this transaction was incubating for 13 years

Capital allocation

Fairfax is earning a record amount of operating earnings in 2023 and the set-up for the next couple of years looks very promising. What will Fairfax do with all the cash that is raining down?

"The best stock to buy is the one you already own." *Peter Lynch*

The past couple of years, Fairfax has been cannibal investing (gorging) - buying significantly more of companies it already owns. GIG is the latest example of this strategy. Fairfax owned 43.7% and now they own 90%.

This is such a good strategy because it is very low risk. They understand GIG very well, having been closely involved with the company for the past 13 years. Fairfax is also paying up for quality (and to get control of the company).

Bottom line, this purchase makes Fairfax a more profitable and higher quality company.

GIG updated their web site in 2024 with lots of new information. Below are links to a couple of presentations and investor relations.

Investor Presentation – May 2023 (short – 7 pages)

https://www.gulfinsgroup.com/media/GIG_Investor_Presentation_2023_EN_Final.pdf

Corporate Profile

https://www.gulfinsgroup.com/media/GIG-Corporate-Profile-ENG_D5wymRk.pdf

Investor Relations

https://www.gulfinsgroup.com/en/investor-relations/

In 2010, Fairfax invested $217 million for a 41.3% interest in Gulf Insurance. Fairfax partnered with KIPCO (Kuwait), the controlling shareholder of Gulf Insurance.

GIG became the vehicle for Fairfax to grow its insurance business in the MENA region (Middle East North Africa). The growth for the next 10 years was largely organic.

Late in 2020, as the world was struggling with covid, GIG opportunistically agreed to purchase the insurance operations of AXA Gulf & Yusuf Bin Ahmed Kanoo for $475 million. This purchase almost doubled the size of GIG - it was a big, bold move. Parent AXA was looking to re-build its capital levels due to losses experienced from covid. The purchase closed in Sept of 2021. Fairfax did invest new money in GIG (as did KIPCO) in 2021 to keep its ownership in GIG steady at 43.7% (not sure exactly how much they spent).

The shares of GIG are publicly traded on the Kuwait stock exchange. However, they are thinly traded, with KIPCO and Fairfax together owning 90%.

Who is KIPCO?

Kuwait Projects Company (Holding) – KIPCO – is a holding company that focuses on investments in the Middle East and North Africa. It's strategy of acquiring, building, scaling and selling companies in the MENA region has worked successfully for over 30 years.

https://kipco.com

Historical Information

Gulf Insurance Group

billions	Gross Premiums	CR	Investment Portfolio
2022	$2.676	92	$2.407
2021	$1.818	94	$2.422
2020	$1.449	93	$0.991
2019	$1.297	95	
2010	$0.418		$0.552

millions	Own %	Fair Value	Carrying Value	Share of Profit
2022	43.7%	$415.8	$403.4	$53.0
2021	43.7%	$409.5	$380.0	$55.5
2020	43.4%			$5.8
2019	43.6%			$15.4
2010	41.3%	$219.9	$219.9	

From Fairfax's Q3 Interim Report

Subsequent to September 30, 2023 *Acquisition of additional interest in Gulf Insurance*
"On April 19, 2023 the company entered into an agreement to acquire all shares of Gulf Insurance under the control of KIPCO and certain of its affiliates, representing 46.3% of the equity of GIG. In accordance with applicable Kuwaiti regulatory requirements and the rules of the Boursa Kuwait, the exchange on which Gulf Insurance's shares are traded, the company will pay the purchase price to KIPCO in full in Kuwaiti Dinar on closing. Pursuant to the terms of the agreement, immediately following settlement of the transaction, KIPCO shall return to the company in cash the full purchase price less an amount of Kuwaiti Dinar equal to $200.0, together with a cash payment equal to all dividends received by KIPCO from Gulf Insurance after Jan 1, 2023, and the company will deliver to KIPCO a payment deed of $660.0 which requires the company to make four equal annual payments of $165.0 to KIPCO beginning on the first anniversary of closing of the transaction.

"The company's acquisition of all of KIPCO's shares in Gulf Insurance will be for aggregate fair valuation consideration of approximately $740 (approximately 227 million Kuwaiti Dinar), to be paid as approximately $177 in cash ($200.0 less dividends of approximately $23 received by KIPCO during the second quarter of 2023) and the fair value of approximately $563 in a payment deed. Closing of the transaction is subject to customary closing conditions, including regulatory approvals, and is expected to be in the fourth quarter of 2023. On closing of the transaction, the company's equity interest in Gulf Insurance will increase from 43.7% to a controlling interest of 90.0%. Accordingly, the company anticipates that upon closing it will consolidate the assets and liabilities of Gulf Insurance and will record a pre-tax gain of approximately $290, with changes in the company's carrying value of its equity accounted investment in Gulf Insurance up until the date of closing affecting the pre-tax gain." *Fairfax's Q3 Interim Report*

Prem's comments about GIG from Fairfax's 2022AR.

"Gulf Insurance Group had another excellent year led by CEO Khaled Saoud Al-Hasan and GIG Gulf CEO Paul Adamson. 2022, the first full year with GIG Gulf results, produced gross premiums of over $2.5 billion and a combined ratio of approximately 92%. We have a wonderful partnership with Kipco, led by CEO Sheikha Dana, in the ownership of Gulf Insurance."

"Bijan (Khosrowshahi), along with Jean Cloutier, have been deeply involved with Gulf Insurance Group in the Middle East as well. After the acquisition of AXA Gulf (now GIG Gulf) in 2021, Gulf Insurance is one of the most prominent players in the region. Led by Khaled Al-Hasan, with Paul Adamson running GIG Gulf as a standalone unit, Gulf Insurance will be an increasingly important contributor to Fairfax." *Prem Watsa – Fairfax 2022AR*

Prem's comments about GIG from Fairfax's 2021AR.

"I mentioned this to you in last year's annual report but it bears repeating. We have had a wonderful partnership with Kipco in the ownership of Gulf Insurance Group (GIG) in Kuwait. GIG is run by Khaled Saoud Al- Hasan, until just recently under the chairmanship of Faisal Al-Ayyar, the CEO of Kipco. GIG had $1.8 billion (including four months of AXA Gulf) in premiums in 2021, more than 3 times the premiums in 2010 when we became a partner (our interest is 44%). Khaled has an outstanding track record with an average combined ratio of 95%, with excellent reserving. As mentioned last year, GIG acquired AXA Gulf (now GIG Gulf) on September 7, 2021, which had $1 billion in premiums in 2021 and a combined ratio of 93%. The new GIG, operating in 13 countries with $2.6 billion in gross premiums, will be a force to be reckoned with. Paul Adamson and his team have done an outstanding job at AXA Gulf. From Fairfax, Bijan Khosrowshahi, Jean Cloutier and Quinn McLean have been very involved in the success of our partnership with GIG. It is with great regret that I have to announce that our partner, Faisal Al-Ayyar, has recently retired after a stellar 30+ year career with Kipco. He has been a wonderful friend and partner to Fairfax and myself and we will miss him greatly. We wish Faisal and his family much happiness and good health in his retirement. Sheikha Dana is the new CEO of Kipco and our partner at GIG. We look forward to working with her in the years to come." *Prem Watsa – Fairfax 2021AR*

<u>Investing activities for the year ended December 31, 2021</u>

"Purchases of investments in associates of $175.4 primarily related to increased investments in Gulf Insurance, HFP and a Fairfax India associate."

Prem's comments about GIG from Fairfax's 2010AR.

"Gulf Insurance consolidates our interests in the Middle East."

"In 2008 we mentioned to you that we had purchased approximately a 20% interest in Arab Orient run excellently by Isam Abdelkhaliq and controlled by Karim Kabariti (Chairman of Jordan Kuwait Bank). Through Karim we met Faisal Al Ayyar, Vice Chairman of Kipco, the controlling shareholder of Gulf Insurance and Jordan Kuwait Bank and the ultimate controller of Arab Orient.

Under Faisal's leadership, Kipco has had an outstanding track record over the past 20 years, increasing shareholder value by building businesses with an Arab world focus. Kipco's book value per share has compounded by 16% per year over the past 13 years and the stock price has followed suit. We paid $217.1 million for a 41% interest in Gulf Insurance, with Kipco having a 43% interest, and Gulf Insurance purchased our shares of Arab Orient at our cost of $11.2 million to increase Gulf's ownership of Arab Orient to 89%. Gulf Insurance, which has been in business since 1962, operates in seven countries in the Middle East and North Africa and is the premier property and casualty company in the region. In 2010, Gulf Insurance wrote $417.6 million in gross premiums and earned $33.2 million, with a consolidated investment portfolio of $552.0 million; its combined ratio has averaged 94% over the past ten years. We are excited to be partners with Faisal and his management team at Kipco and our team of Bijan Khosrowshahi, Jean Cloutier and Steve Ridgeway look forward to working with Khaled Saoud Al-Hasan, the CEO of Gulf Insurance, and the presidents of the seven insurance companies belonging to Gulf Insurance. We continue to separately own a 20% interest in Alliance Insurance Company in Dubai, led by Wisam Al Haimus. Wisam had another outstanding year with a combined ratio of approximately 74% in 2010." *Fairfax 2010AR*

Press release from 2020 with details of GIG's acquisition of AXA Gulf/Yusuf Bin Ahmed Kanoo.

"Gulf Insurance Group CEO Khaled Saud Al-Hassan said in an interview with "Al Arabiya" today, Tuesday, that the acquisition of the entire stake in "AXA Gulf" by Gulf Insurance is part of the group's strategy to increase revenue and its presence in the Arab region.

"He added that Gulf Insurance is currently present in 11 countries and its revenues totaled $ 1.5 billion in 2020, and the acquisition is part of the board's policy for regional expansion and leadership in Arab insurance markets. operations and net profit.

"Gulf Insurance Group CEO explained that Gulf Insurance Group is present in countries including Egypt, Algeria and Turkey, as well as other Arab markets, and these countries account for 50% of the group's total revenues and Kuwait accounts for the remaining percentage.

"Khaled Saud Al-Hassan indicated that the acquisition of AXA Gulf will increase the group's revenues to $ 2.5 billion, making it the largest player in the Arab insurance market and is present in 13 countries, adding Qatar, Oman and Abu Dhabi after the acquisition, in in order to serve customers and shareholders."

https://asumetech.com/gulf-insurance-in-al-arabiya-the-acquisition-of-axa-brings-revenues-to-2-5-billion-dollars/

Ki Insurance

Company web site: https://ki-insurance.com

Ki is the first of its kind. We wanted a way to empower brokers, to offer more capacity, faster, digitally. Developed in partnership with Google Cloud, UCL and Brit, we use algorithmically powered underwriting to deliver quotes in seconds, not days.

July 3, 2025

Ki continues to build out its executive ranks as it builds its platform as a stand-alone company.

Jacques Bonneau appointed Non-Executive Chair of Ki Financial

- https://www.reinsurancene.ws/jacques-bonneau-appointed-non-executive-chair-of-ki-financial/

Ki, the fully digital and algorithmically-driven Lloyd's syndicate, has appointed Jacques Bonneau as Non-Executive Chair for Ki Financial Limited, effective July 1st, 2025.

Bonneau, who retired in March 2024, previously served as President & Chief Executive Officer (CEO) of Bermuda-domiciled reinsurer, PartnerRe.

He is an experienced re/insurance industry veteran, having served in several senior roles. Bonneau has also held a range of senior leadership roles at Chubb, latterly as Group Chief Underwriting Officer.

Feb 20, 2025 - CEO of Ki, Mark Allen, is interviewed by Sam Casey with Insurance Insider

Podcast - Overview of Ki's journey from startup in 2021 to stand-alone company January 1, 2025. Interview with Mark begins at the 8-minute mark of podcast.

https://www.insuranceinsider.com/article/2eg0na21680fl76l67xmw/behind-the-headlines-mark-allan-on-making-ki-like-a-marketplace-in-its-independent-era?zephr_sso_ott=8FO7KW

January 25, 2025 - Ki completes separation to become standalone company within Fairfax

https://ki-insurance.com/news/ki-completes-separation

August 2024 - Article on Ki from Gallagher Re's Global InsurTech Report

Lloyd's of London and Ki Insurance: Transforming a 336-year-old market

https://ki-insurance.com/news/future-of-ai-in-underwriting

Ki launched the platform towards the end of 2020, ready for risks incepting from January 1, 2021. Initially the capacity offered was from Ki's own Syndicate 1618, which was the first digital syndicate on the market — and which quickly became one of the largest start-up syndicates in the history of Lloyd's. In 2024, the platform expanded to offer capacity from other Lloyd's Syndicates including Aspen, Beazley, and Travelers. This meant that Ki has not only revolutionized the speed of underwriting risks, but also the way brokers can access significant volumes of capacity, helping them efficiently cover risks for their clients.

Prem's comments about Ki from Fairfax's 2021AR.

"Ki, Brit's partnership with Blackstone, had a fantastic year in 2021 under Mark Allan's leadership, writing nearly $400 million in gross premiums in its very first year. There is no question that Ki's digital platform works and it expects to write $800 million in 2022 with a combined ratio below 100%. Ki had the fastest start-up in Lloyd's history."

Prem's comments about Ki from Fairfax's 2020AR.

"In 2020 Brit, in collaboration with Google cloud, launched Ki, a standalone business and the first fully digital and algorithmically-driven Lloyd's syndicate. Ki will aim to significantly reduce the amount of time and effort taken by brokers to place their follow-on capacity, creating greater efficiency, responsiveness and competitiveness. We partnered with Blackstone to provide $500 million of committed capital to fund the expansion of Ki. Ki began writing business in January 2021 and got off to a great start, writing $70 million of premium and on track to meet the full year 2021 plan of over $300 million. This is a very exciting new venture in the insuretech space and Matthew Wilson, Mark Allen and team have done an outstanding job getting this initiative up and running. Mark Allen has been appointed as CEO of Ki, and will be stepping down as CFO of Brit."

Odyssey Group – Link to 'Enduring Momentum' Book (2021)

September 6, 2025

CEO of Odyssey, Carl Overy, is interviewed by The Insurer.

Stronger than ever: Odyssey's Overy on the journey ahead

Odyssey's Carl Overy discusses market conditions and key developments since taking up his new role as group CEO.

https://www.theinsurer.com/ti/viewpoint/stronger-than-ever-odysseys-overy-on-the-journey-ahead-2025-09-06/

In 2021, the Odyssey Group published a book, called Enduring Momentum, to commemorate their first 25 years as a Fairfax company.

Enduring Momentum

Click the link to get a free PDF copy of the book: https://online.fliphtml5.com/bxxq/xlyw/#p=1

A description of the book from Brian Young, past President and CEO of Odyssey Group

"In commissioning this book, our goal was to celebrate the people and key events that have guided us to this special anniversary. While it is not intended to encompass every step of our journey, it does highlight many crucial moments during the past quarter century that have been important to our development and success.

"What has made our journey so rewarding? The answer is inside these pages, where many of our employees have expressed their thoughts and feelings about who we are as a company and what it's like to work at Odyssey in just six simple words. This six-word story challenge was posed in January 2020, and the response was overwhelming. I truly hope you enjoy reading them."

Singapore Re: A Case Study in How Fairfax Creates Value

May 25, 2026

Introduction: A Small Asset, A Clear Signal

What insurance operation delivered the lowest combined ratio at Fairfax in 2025?

Singapore Re.

Largely unknown, and easy to overlook. That is precisely why it matters.

Singapore Re provides a clean, observable example of how Fairfax actually creates value—through a repeatable process built on long-term ownership, disciplined capital allocation, and high-quality operators.

It is not a large asset. But it is an important one analytically.

A 20-Year Investment: Ownership as a Process

Fairfax's involvement spans more than two decades:

- Initial investment: 1999
- Increased to ~20% (associate): 2009
- Acquired control: 2021

This was not a transaction. It was a progression.

Fairfax did not "buy" Singapore Re in the conventional sense—it *grew into ownership* over 21 years.

This reflects a core principle seen across Fairfax:

Ownership is often the result of time, trust, and accumulated knowledge—not a single decision.

People First: The Origin of the Investment

The investment originated with Mr. Athappan, one of the key architects of Fairfax's Asian insurance operations. His approach aligns directly with Fairfax's operating philosophy:

- Long-term orientation
- Strong underwriting discipline
- Emphasis on relationships and trust
- Early identification of capable operators

Singapore Re is not an isolated success. It is an outcome of this system. Fairfax institutionalized his legacy through the Athappan Cup—awarded annually to the top underwriting operation—reinforcing underwriting excellence as a cultural anchor.

Patience: Strategic, Not Passive

Fairfax did not seek immediate control. It waited.

In 2021, circumstances changed. The CEO faced terminal illness and sought a permanent, stable owner. Fairfax—already a long-standing shareholder—was the natural acquirer.

This is a recurring Fairfax pattern:

Patience creates optionality. Relationships convert optionality into opportunity.

Price Discipline: The Foundation of Returns

When Fairfax acquired control:

- Paid: $103 million (to move from ~28% to ~96%)
- Implied valuation: $152 million
- Shareholders' equity: $221 million

Purchase price: ~0.69x book value

This is a critical step. The investment works because it starts with a margin of safety. Everything that follows—growth, underwriting profits, investment income—compounds from a low entry point.

This is not accidental. It is by design.

Cycle Awareness: Scaling at the Right Time

The acquisition closed just before the reinsurance hard market began in 2022.

The outcome:

- Net premiums written: $67M → $211M (2021–2025)
    - 4-year CAGR: 33.2%
- Investment portfolio: $317M → $591M
    - 4-year CAGR: 16.9%

Two things happened simultaneously:

- Underwriting expanded into a favourable pricing environment

- Investment income increased with both scale and higher interest rates

This is Fairfax's model working as intended:

Capital is deployed ahead of improving conditions—and then allowed to scale.

Quality: The Underwriting Engine

Singapore Re is a high-quality operator:

- 5-year average combined ratio: 74%
- 2025 combined ratio: 77% (best within Fairfax)
- 4-year underwriting profit: $114 million

In four years, underwriting profit alone exceeded the cost to acquire control.

That is a defining characteristic of high-quality insurance businesses:

The underwriting engine becomes self-funding—and then value-generative.

Contribution: Small but Economically Meaningful

In 2025:

- Underwriting profit: ~$44 million
- Represents the majority of Fairfax Asia's underwriting income

Singapore Re is not large in absolute terms. But it is highly productive capital.

And at Fairfax, productivity—not size—is what matters.

The Framework: How Fairfax Wins

Singapore Re maps directly onto Fairfax's operating model:

- People → Strong operators identified early
- Price → Acquired below intrinsic value
- Patience → Ownership built over decades
- Cycle → Scaled into a hard market
- Capital Allocation → Disciplined and opportunistic

This is not a one-off success. **It is a repeatable process.**

The Broader Lesson: Compounding Through Process

Over time, Fairfax builds value through a portfolio of businesses that share three characteristics:

- Sound underwriting economics
- Disciplined capital allocation
- High-quality operators

The outcome is not driven by any single investment.

It emerges from the aggregation of many decisions made correctly over long periods of time.

A collection of "singles"—executed well and consistently—drives compounding.
Occasional "home runs" accelerate it.

Bottom Line

Singapore Re is a small piece of Fairfax.

But it captures the essence of the model:

- Buy well
- Partner with strong operators
- Wait patiently
- Scale with the cycle
- Allocate capital intelligently

And over time: Let compounding do the heavy lifting.

Singapore Re: 5-Year Snapshot of Results

US$; million	Premiums Written			Under-writing	Share-holders	Invest-ment
Year	Gross	Net	CR	Profit	Equity	Portfolio
2021 (1)	$186	$67	62% (1)		$221	$317
2022	$281	$79	63%	$25	$211	$338
2023	$355	$146	87%	$21	$229	$422
2024	$312	$161	83%	$24	$267	$482
2025	$388	$211	77%	$44	$328	$591
Total				**$114**		
5-Yr Average			**74%**			
4-Yr CAGR	**20.2%**	**33.2%**			**10.4%**	**16.9%**

(1) GPW were $100 million from June 17, 2021, when results were consolidated

Fairfax 2026AGM - Brian Young

"Turning to the international side. We generated $220 million of underwriting profit, more than double what we generated in 2024. The standout performers – Colonnade, Bryte and Singapore Re – all generated record underwriting profits. Singapore Re, headed by Philippe Mallier, had not only the lowest combined ratio on the international side, they had the lowest combined ratio of all of our companies at 77%. Well done, Philippe."

Fairfax 2025AR

Singapore Re, based in Singapore, underwrites general property and casualty reinsurance in the Asian region. In 2025, Singapore Re's net premiums written were SGD 275.2 million (approximately US$211 million). At year-end, the company had shareholders' equity of SGD 422.0 million (approximately US$328 million) and there were 87 employees.

Prem: Fairfax Asia in 2025 produced a 90.3% combined ratio, and $49 million of underwriting profit. Singapore Re, led by Phillipe Mallier, is responsible for $44 million of the collective Fairfax Asia result. Gobi Athappan and his team oversee our companies in Malaysia, Hong Kong, Indonesia, Sri Lanka and Thailand. Brian Young has taken a hand in advising Gobi and helping Fairfax Asia realize its potential in this rapidly developing area.

Fairfax 2024AR

Singapore Re, based in Singapore, underwrites general property and casualty reinsurance in the Asian region. In 2024, Singapore Re's net premiums written were SGD 215.0 million (approximately US$161 million). At year-end, the company had shareholders' equity of SGD 364.4 million (approximately US$267 million) and there were 81 employees.

Prem: Fairfax Asia increased its underwriting profit to $34 million, reducing its combined ratio to 92.1%. As noted, Gobi Athappan and Ravi Prabhakar are taking Fairfax Asia forward after the unfortunate passing of our beloved Mr. Athappan. Singapore Re, under Philippe Mallier, contributed $24 million to the 2024 result.

Fairfax 2023AR

Singapore Re, based in Singapore, underwrites general property and casualty reinsurance in the Asian region. In 2023, Singapore Re's net premiums written were SGD 196.1 million (approximately US$146 million). At year-end, the company had shareholders' equity of SGD 302.1 million (approximately US$229 million) and there were 72 employees.

Prem: Our Fairfax Asia group reported a combined ratio of 93.9% and underwriting profit of $26 million. Amongst the various companies of Fairfax Asia, Singapore Re, under the able and energetic guidance of Phillipe Mallier, was the stand-out, contributing $21 million to the result. Overall direction of Fairfax Asia continues to be under Mr. Athappan, with assistance from his son, Gobi, and Ravi Prabhakar.

Fairfax 2022AR

Singapore Re, based in Singapore, underwrites general property and casualty reinsurance in the Asian region.In 2022, Singapore Re's net premiums written were SGD 108.9 million (approximately US$79 million). At year-end, the company had shareholders' equity of SGD 282.9 million (approximately US$211 million) and there were 68 employees.

Prem: Fairfax Asia grew net premiums written 25% in 2022, while posting an underwriting profit of $34 million at a combined ratio of 89%. Results benefited from a full-year contribution from Singapore Re, which was responsible for $25 million of the division's total underwriting profit. Credit to Philippe Mallier in his role as CEO of Singapore Re. And, of course, great credit to Mr. Athappan who continues to direct the overall operations of Fairfax Asia.

Fairfax 2021AR

Singapore Re, based in Singapore, underwrites general property and casualty reinsurance in the Asian region. In 2021, Singapore Re's net premiums written were SGD 90.3 million (approximately US$67 million). At year-end, the company had shareholders' equity of SGD 297.5 million (approximately US$221 million) and there were 71 employees.

Prem: We were very pleased to purchase the remaining 72% of Singapore Re. Brought to us by Mr. Athappan, who is the Chairman, we first invested in Singapore Re in 2009, so we knew the company very well. It is with deep sadness that we announce that Theresa Wee, the CEO of Singapore Re, lost her health battle late in the year. Theresa had been with Singapore Re for more than three decades and her loyalty, hard work and leadership, built Singapore Re into the company it is today. Philippe Mallier is taking over as President and CEO – Philippe has been with Odyssey Group for 25 years and will remain CEO of its Latin America division. He will work closely with Mr. Athappan. We are very excited about this move as it will help link our North American operations with our Asian operations. Mr. Athappan, Brian Young and Andy Barnard have made this happen.

Additional investment in Singapore Reinsurance Corporation Limited
On June 17, 2021 the company increased its ownership interest in Singapore Reinsurance Corporation Limited ("Singapore Re") from 28.2% to 94.0% for $102.9 (SGD 138.0) and subsequently increased its ownership interest to 100%. Singapore Re is a general property and casualty reinsurer that underwrites business primarily in southeast Asia.

Fairfax 2009AR: Application of the Equity Method of Accounting
The company began acquiring common shares of Singapore Reinsurance Corporation Limited ("Singapore Re") in 1999 and until December 24, 2009 accounted for its investment in 17.5% of the common shares of Singapore Re as available for sale at fair value. On December 24, 2009, the company increased its interest in Singapore Re to 20.0% and determined that it had obtained significant influence and, accordingly, the company changed the accounting treatment of its investment in Singapore Re from available for sale to the equity method of accounting on a prospective basis.

Chapter 14: Investments – Fixed Income

Fairfax has three economic engines that drive its earnings:

- Insurance
- Investments – fixed income
- Investments – equities/derivatives

In this chapter we are going to focus on the fixed income portfolio.

An Introduction to the Fixed Income Portfolio of Fairfax

November 25, 2023

The team: how does Fairfax manage fixed income?

All investments at Fairfax are managed through Hamblin Watsa.

> "Hamblin Watsa Investment Counsel, a wholly-owned subsidiary of Fairfax Financial Holdings Limited, provides global investment management services solely to the insurance and reinsurance subsidiaries of Fairfax." *Hamblin Watsa website*

Within Hamblin Watsa, the team that manages the fixed income portfolio is led by Brian Bradstreet. Brian has been with Fairfax for 36 years - from the very beginning.

Is the team any good?

Under Brian's leadership, the fixed income team at Fairfax has done an exceptional job over the decades of managing Fairfax's fixed income portfolio. They have a very good long term track record. I think we can say the fixed income team is a competitive advantage for Fairfax compared to peers. This is important because fixed income is by far the largest piece of Fairfax's total investment portfolio.

(As an aside, it was Brian Bradstreet who brought the CDS opportunity to Fairfax's attention just as the housing bubble got going in the US (2003?). By 2009, that investment had made Fairfax $2 billion in profit. Not too shabby.)

How big is Fairfax's fixed income portfolio?

Fairfax has an investment portfolio of about $57.5 billion. Of this total, about $16.5 billion or 29%, is invested in equities. The vast majority, about $41 billion or 71%, is invested in fixed income securities.

Fairfax Investment Portfolio		
September 30, 2023	**$bn**	**Split**
Fixed Income	$41.0	71%
Equities / Derivatives	$16.5	29%
Total Investments	**$57.5**	

When investors talk about Fairfax and investments, they usually focus exclusively on the equity holdings. The fixed income part of Fairfax is rarely discussed - even though it is the much larger part of the total investment portfolio.

Well, this is changing. Why? Follow the money…

Has the fixed income portfolio been growing in size?

The fixed income portfolio at Fairfax has increased from $20.3 billion at Dec 31, 2016 to an estimated $42 billion at Dec 31, 2023. The increase is $21.7 billion, or 107%. The CAGR from 2016 to estimated 2023 is 11%. With the expected closing of the GIG acquisition in Q4 and the continuation of the hard market we should see similar growth in 2024.

Fairfax: Fixed Income

Nov 14, 2023

	$bn
2016	$20.3
2017	$28.0
2018	$26.7
2019	$26.4
2020	$29.8
2021	$36.8
2022	$38.9
2023E	$42.0
2024E	$47.0

How much does Fairfax earn on its fixed income portfolio?

The returns that Fairfax earns in its fixed income portfolio come primarily in two ways:

- Interest income
- Investment gains (losses) - realized and unrealized

Fairfax actively manages its fixed income portfolio and has generated meaningful realized investment gains over time. However, to keep our analysis simple (and this post to a reasonable length), we are going to focus here on the largest bucket, interest income.

The historical returns for interest income

Interest income averaged $647 million per year from 2016-2021. From this average, it increased to an estimated $1.8 billion in 2023 or +182%. It is forecasted to increase further in 2024 to about $2.1 billion (my latest estimate).

The average yield on the fixed income portfolio from 2016-2021 at Fairfax was about 2.4%. The yield has almost doubled to an estimated 4.3% in 2023 and 4.6% in 2024.

Fairfax: Fixed Income				
Nov 14, 2023		Interest Income		
	$bn	$mn	/ Share	Yield
2016	$20.3	$514	$22	2.5%
2017	$28.0	$515	$19	1.8%
2018	$26.7	$744	$27	2.8%
2019	$26.4	$826	$31	3.1%
2020	$29.8	$717	$27	2.4%
2021	$36.8	$568	$24	1.5%
2022	$38.9	$874	$37	2.2%
2023E	$42.0	$1,826	$80	4.3%
2024E	$47.0	$2,140	$96	4.6%
Interest Inc - 2016-2021 avg $647mn/yr or 2.4%				

Summary

Fixed income investments are managed by a very capable team at Fairfax, lead by Brian Bradstreet. The fixed income portfolio has more than doubled in size from 2016 to 2023. At the same time the yield Fairfax is earning on its fixed income portfolio has almost doubled (from the average from 2016-2021). As a result of these two doubles (size and rate of return), interest income has spiked higher to about $2 billion per year (the current run rate).

Interest income is now the largest income stream at Fairfax. This is important because this source of income is considered to be very high quality by investors and analysts. It is considered to be high quality because it is relatively predicable and durable.

What happened to spike interest income so much? In short, over the past 2 years the fixed income team at Fairfax delivered a clinic in value investing and active management. But before we explore this further, let's first cover off some bond basics.

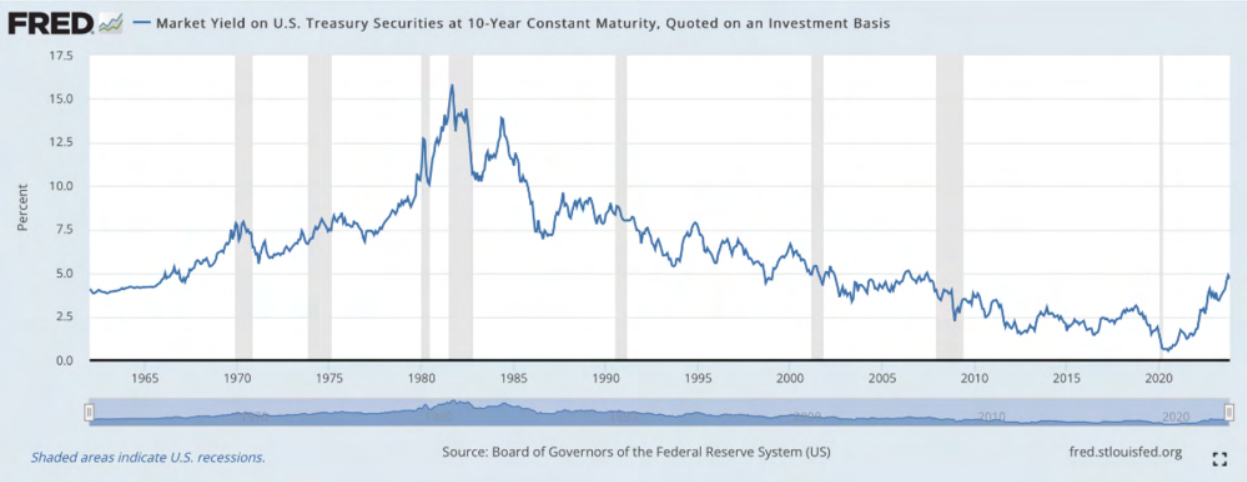
Fixed Income - Some Basics

November 25, 2023

Fixed income investing is very different from equity investing. Let's spend a few minutes and review a few things that are relevant to our analysis.

The greatest bull market in history.

From 1981-2020, bonds experienced the greatest bull market in history. It began in September 1981, when the interest rate on the 10-year US treasury peaked at around 16%. It ended 40 years later, in June 2020, when the interest rate on the 10-year US treasury bottomed at 0.65%. Ever falling interest rates was an incredible 40-year tailwind for fixed income investors (actually, all investors - equity, real estate etc).



The bull market lasted so long some of the risks of owning bonds, like interest rate risk, receded into the shadows…. largely forgotten by fixed income investors.

But everything changed in early 2022. The scourge of double digit inflation escaped from its cage and was wreaking havoc on the global economy. The Federal reserve and other central banks began a historic tightening cycle and, in the process, unleashed hell on bond markets.

The greatest bond bear market in history

From 2021-2023, bonds experienced the greatest bear market in their history. The interest rate on the 10-year US treasury - that had bottomed at 0.65% in 2020 - hit a 15 year high of 4.98% in October 2023. The relentless move higher in interest rates over the past 2 years has caused the value of fixed income portfolios to crater.

Where are the losses hiding? The massive losses are sitting on the balance sheets of central banks, pension funds and financial institutions all over the world. And yes, P/C insurance companies.

The Worst Bond Bear Market in History
October 13, 2023 by Ben Carlson

- https://awealthofcommonsense.com/2023/10/the-worst-bond-bear-market-in-history/

"One of the strange parts about living through the worst bond bear market in history is there doesn't seem to be a sense of panic. If the stock market was down 50% you better believe investors would be losing their minds. Yes, some people are concerned about higher interest rates but it feels pretty orderly all things considered.

"So why aren't people freaking out about bond losses more?

"It could be there are more institutional investors in long bonds than individuals. There are lots of pension funds and insurance companies that own these bonds.

"It's going to take a very long time for investors to get made whole but you can hold these bonds to maturity to get paid back at par."

Active management matters again

As the bear market in bonds clawed its way through fixed income portfolios, a few P/C insurance companies were much better prepared than others. To understand who the relative winners and losers were/are it is helpful to first review the risks of investing in bonds.

A review of some of the risks of investing in bonds

- Interest rate risk - rising interest rates cause bond prices to fall. Duration matters a lot with this risk. Spiking interest rates impact long duration bond portfolios much more than short duration portfolios.
- Credit risk - the risk the issuer may default on one or more payments. Market dislocations / recessions matter a lot with this risk - events that cause credit spreads to blow out. Commercial real estate (in particular office) has taken a beating over the past year.
- Inflation risk (purchasing power risk) - the risk that inflation is higher than the total return received on the bond. Unexpected inflation is what matters with this risk. Especially if the inflation is high and persists for years.
- Reinvestment risk - the risk that at maturity, the proceeds will be reinvested at a lower rate than the bond was earning previously.

What does all this mean for P/C insurers?

November 25, 2023

To state the obvious, how fixed income portfolios were structured in 2020 / 2021 - when interest rates bottomed - has determined how the bear market in bonds has impacted individual P/C insurers. The two key metrics were:

- duration
- credit quality

So far, the clear winners have been the P/C insurers that had fixed income portfolios in 2021/2022 that were low duration. (If we get an economic slowdown / recession then credit quality will likely also become an important factor.)

Interest rate risk

> "Only when the tide goes out do you discover who's been swimming naked." Warren Buffett

Most P/C insurers match the duration of their insurance liabilities with the duration of their fixed income portfolio. So, in 2020/2021, many P/C insurers had an average duration in their fixed income portfolios of about 4 to 4.5 years.

As a result of spiking interest rates in 2022, most P/C insurers saw the value of their fixed income portfolio plummet. This in turn caused book value to crater. This happened despite earning a strong underwriting profit in 2022.

P/C Insurance - Change in Book value Per Share

			YOY Change	
December 31	**2022**	**2021**	**$**	**%**
Fairfax	$657.68	$630.60	$27.08	4%
WR Berkley	$25.52	$25.09	$0.43	2%
Intact Fin (C$)	$80.33	$82.34	-$2.01	-2%
Berkshire B	$214.80	$226.22	-$11.42	-5%
Markel	$929.27	$1,036.20	-$106.93	-10%
Chubb	$121.90	$139.99	-$18.09	-13%
AIG	$53.83	$79.97	-$26.14	-33%

Let's look at one P/C insurer to better understand what happened

Chubb is viewed by many investors/analysts as being one of the better run P/C insurers. At the end of 2020, Chubb's fixed income portfolio of $107.6 billion was sitting on an unrealized gain of $6.5 billion. Interest rates started to rise in 2021 and at year-end the fixed income portfolio was sitting on a smaller gain of $3.2 billion. In 2022, interest rates spiked higher. At the end of 2022, Chubb was suddenly sitting on a loss of $8.4 billion. Holy shit batman! The two year change in the fair value of

Chubb's fixed income portfolio was a staggering swing in value of $14.9 billion (from a gain of $6.5 to a loss of $8.4 billion). As a result, despite earning a strong underwriting profit, book value at Chubb got crushed in 2022.

To put this in context, from 2020 to 2022, Chubb earned an average of $3.5 billion per year in interest income from its fixed income portfolio. So, a $14.9 billion swing in value over 2 years is a big deal.

Chubb: Fixed income portfolio			
	Fair Value $bn	Cost $bn	(Losses) Gains $bn
2020YE	$107.6	$101.1	$6.5
2021YE	$106.9	$103.7	$3.2
2022YE	$98.6	$107.0	-$8.4

How did Fairfax manage to increase book value in 2022?

In terms of book value growth in 2022, Fairfax was a clear outlier. Why? In late 2021 Fairfax reduced the average duration of their fixed income portfolio to 1.2 years (more on this in a future post). As a result, it was not impacted by spiking interest rates nearly as much as other P/C insurers.

Did any other P/C insurers have extremely low duration?

Yes. Berkshire Hathaway had very low average duration (my guess is their loss in book value in 2022 was due in part to mark-to-market losses on their equity portfolio). WR Berkley also deserves a shout-out as their average duration at December 31, 2021, was 2.4 years, which was much lower than the average. As a result, in addition to Fairfax, WR Berkley was one of the few P/C insurers who were able to deliver an increase in book value in 2022.

How should we think about these losses?

Yes, big unrealized losses sound scary. Is this a solvency problem for P/C insurance companies? No, probably not. P/C insurers have said they will simply hold the bonds until they mature. Unless there is an unexpected liquidity need (perhaps like a 1-in-100 year catastrophe) it is unlikely we are going to see forced sales. So, if the losses will not be realized are they really a problem?

Given the sizeable impact to book value there may be regulatory implications - insurance regulators and credit rating agencies are likely paying close attention.

Perhaps the more important question is how long are some P/C insurers going to have to sit on those ~~shit~~ low yielding bonds they are holding? The key is duration. P/C insurers with fixed income portfolios with an average duration of 4 or 5 years are likely going to need another couple of years to get the low yielding bonds off their books. Low yielding bonds - means low interest income - means lower earnings.

P/C insurers with a low duration portfolio have a big earnings advantage for the next couple of years over P/C insurers with longer duration fixed income portfolios. We will discuss this more below.

Inflation risk

Expected inflation is generally not a problem. Unexpected inflation, if it is high and persistent, can be a big problem for P/C insurance companies. And guess what we have had for the past 2 years? Unexpected high (double digit) inflation.

Why is unexpected inflation an issue? Because most P/C insurance companies are sitting on tens of billions in insurance liabilities.

P/C insurers get paid a fixed amount up front when they write an insurance policy. When they price the policy, they have to guess at its cost. After doing all this, they hope to make a profit.

Unexpected inflation is a big problem for P/C insurers. It means costs are likely going up more than expected. This is especially problematic for long tail lines of business. Because those higher than expected losses keep happening for years into the future.

And if you also have a long duration fixed income portfolio - and, at the same time, you are stuck with ~~shit~~ low yielding bonds - well, your problems are even worse.

High unexpected inflation and a long duration / low yield fixed income portfolio is not a good combination for the profitability of a P/C insurer - it has the potential to squeeze earnings for years.

Perhaps this partly explains why the hard market that started in late 2019 kept going strong in 2023 and looks set to continue strong into 2024 - despite repeated predictions of its imminent demise.

Reinvestment opportunity (not risk)

The increase in interest rates the past 18 months has been historic in amount and speed. P/C insurers are seeing interest rates today - across the curve - at 15 year highs.

US Treasury Rates

2021	1 Month	1 Year	2 Year	3 Year	5 Year	10 Year
31-Dec	0.06%	0.39%	0.73%	0.97%	1.26%	1.52%
2022	**1 Month**	**1 Year**	**2 Year**	**3 Year**	**5 Year**	**10 Year**
31-Mar	0.17%	1.63%	2.28%	2.45%	2.42%	2.32%
30-Jun	1.28%	2.80%	2.92%	2.99%	3.01%	2.98%
30-Sep	2.79%	4.05%	4.22%	4.25%	4.06%	3.83%
31-Dec	4.12%	4.73%	4.41%	4.22%	3.99%	3.88%
2023	**1 Month**	**1 Year**	**2 Year**	**3 Year**	**5 Year**	**10 Year**
31-Mar	4.74%	4.64%	4.06%	3.81%	3.60%	3.48%
30-Jun	5.24%	5.40%	4.87%	4.49%	4.13%	3.81%
30-Sep	5.55%	5.46%	5.03%	4.80%	4.60%	4.59%
18-Oct	5.58%	5.44%	5.19%	5.01%	4.95%	4.98%
21-Nov	5.52%	5.24%	4.86%	4.60%	4.41%	4.41%

P/C insurers with shorter duration fixed income portfolios have been able to capture the spike higher in interest rates much more quickly than P/C insurers with longer duration portfolios. We can see this by looking at the trend in interest income for the last 2 years.

Fairfax is estimated to see interest income increase 133% in 2023 and 222% over the past 2 years. Chubb, on the other hand, is estimated to see interest income increase 33% in 2023 and 47% over the past two years.

The speed of the earn-through for Fairfax is more than 4 x that of Chubb.

Earn-through in Interest Income

	Fairfax			Chubb		
	$mn	Change	2 Year Change	$mn	Change	2 Year Change
2020YE	$717			$3,388		
2021YE	$568	-21%		$3,346	-1%	
2022YE	$784	38%		$3,717	11%	
E 2023YE	$1,827	133%	222%	$4,935	33%	47%

Fixed Income Portfolio

Est 2023 YE	$42	bn		$107	bn
Yield	4.4%			4.6%	

It is also interesting to note that the yield on both Fairfax's and Chubb's fixed income portfolio now looks remarkably similar. What is very different, however, is what they hold in their respective fixed income portfolios.

Credit Risk

The one risk I have not discussed is credit risk - the risk the issuer may default on one or more payments. Fairfax's fixed income portfolio is stuffed mostly with government bonds. High quality. Chubb? Very different.

The yield on Fairfax's and Chubb's fixed income portfolio might be similar. However, the credit risk (made up of the holdings in each of the two portfolios) looks very different to me. Which portfolio is riskier? Which portfolio should perform better it we see an economic slowdown? This post is long enough already… I'll let you answer those two questions on your own.

Conclusion

The historic bear market in bonds has crushed the value of fixed income portfolios of many P/C insurance companies - in turn this has cratered book value. But a few odd ducks were prepared - Fairfax, Berkshire Hathaway and WR Berkely. On a relative basis, over the past 24 months, P/C insurers with low duration fixed income portfolios have been the clear winners over P/C insurers with long duration fixed income portfolios. Fairfax was exceptionally well prepared.

Short duration portfolios protected book value. And the earn-through from higher interest rates (in the form of spiking interest income) has been much quicker - which is boosting profitability - compared to long duration peers.

Having a short duration portfolio has also provided valuable optionality - it allows P/C insurance companies to be opportunistic should we see any dislocations in financial markets (like April of 2023, and the crisis that hit regional banks in the US).

In my next post (coming next week), I will take a closer look at what the team at Fairfax has done with their fixed income portfolio over the past 2 years. What can we learn about Fairfax and their fixed income team? Does value investing also apply to bonds? Does active management matter?

Background Information:

How P/C insurance companies account for their bond holdings is important for investors to understand.

Most bonds at most P/C insurance companies are held in the 'available-for-sale' bucket. This means that unrealized losses do not show up in earnings (or ROE calculations). However, these unrealized losses are real – instead, they show up in 'other comprehensive income' and book value.

How an Available-for-Sale Security Works

https://www.investopedia.com/terms/a/available-for-sale-security.asp#:~:text=Available%2Dfor%2Dsale%20(AFS,a%20ready%20market%20price%20available.

"Available-for-sale (AFS) is an accounting term used to describe and classify financial assets. It is a debt or equity security not classified as a held-for-trading or held-to-maturity security—the two other kinds of financial assets. AFS securities are nonstrategic and can usually have a ready market price available.

"The gains and losses derived from an AFS security are not reflected in net income (unlike those from trading investments) but show up in the other comprehensive income (OCI) classification until they are sold. Net income is reported on the income statement. Therefore, unrealized gains and losses on AFS securities are not reflected on the income statement.

"Net income is accumulated over multiple accounting periods into retained earnings on the balance sheet. In contrast, OCI, which includes unrealized gains and losses from AFS securities, is rolled into "accumulated other comprehensive income" on the balance sheet at the end of the accounting period. Accumulated other comprehensive income is reported just below retained earnings in the equitysection of the balance sheet."

The Genius of the Fixed Income Team at Fairfax

November 29, 2023

We are learning in real time the genius of the fixed income team at Fairfax. Genius is a big word, but I think it applies in this case. The team at Fairfax has been putting on a clinic for the past 3 years - demonstrating the significant value that active management can add to a fixed income portfolio.

We are going to look at what Fairfax has done the past 3 years in three parts:

- Part 1: Late 2021 - Getting even more defensive
- Part 2: 2022 - Start extending duration
- Part 3: 2023 - Being opportunistic and going on the offensive

Part 1: Late 2021 - Getting even more defensive

November 29, 2023

<u>The big picture</u>

We are taught the way to get rich in investing is to buy low and sell high. But sometimes the opposite can also work: sell high and then buy low.

In 2020 and 2021, the 40-year historic bond bubble reached its blow-off-top. Bond yields reached all-time lows and conversely bond prices reached all-time highs. Mr. Market was feeling positively euphoric when it came to fixed income investments - especially those that were long dated. What was a value investor to do? Why sell your long dated bonds of course.

<u>Below are details of 3 moves Fairfax made in late 2021:</u>

1.) Significant sales of corporate bonds at very low yields, locking in large, realized gains:

> "During 2021, we sold $5.2 billion in corporate bonds, mainly acquired in March/April of 2020, at a yield of approximately 1%, for a gain of $253 million." *Fairfax 2021AR*

The question to ask here is who was on the other side of this trade? Who was buying corporate bonds at a 1% yield in late 2021?

2.) The duration of the portfolio was shortened, and the composition of portfolio was shifted to higher quality holdings, mostly treasuries:

> "At the end of 2021, our fixed income portfolio, inclusive of cash and short-term treasuries, which effectively comprised 72% of our investment portfolio, had a very short duration of approximately 1.2 years and an average rating of AA-." *Fairfax 2021AR*

Most P/C insurance companies match the duration of their insurance liabilities with the duration of their fixed income investments - which is around 4 years. So Fairfax going to an average duration of 1.2 years with its fixed income portfolio was a significant difference compared to peers. Fairfax's move to mostly government bonds was also significant and another big difference compared to peers.

3.) Part of the fixed income portfolio was hedged to protect against rising interest rates:

> "To economically hedge its exposure to interest rate risk (primarily exposure to certain long dated U.S. corporate bonds and U.S. state and municipal bonds held in its fixed income portfolio), the company held forward contracts to sell long dated U.S. treasury bonds with a notional amount at December 31, 2021 of $1,691.3 (December 31, 2020 – $330.8)." *Fairfax 2021AR*

Fairfax did not sell all of its long dated bonds. It hedged some of its remaining exposure to provide added protection.

Summary

In late 2021, near the peak of the bond bubble, Fairfax 'sold high' and went extremely short duration with their massive fixed income portfolio of $37 billion. This positioning protected the company from the interest rate risk. It also protected them from inflation risk. Fairfax also shifted the vast majority of its fixed income portfolio to high quality government bonds, which protected the company from credit risk. In summary, by late 2021, Fairfax's fixed income portfolio was very defensively positioned.

The team at Fairfax made these move just months before the Fed (and other global central banks) unleashed hell on fixed income markets. With hindsight, Fairfax's timing was close to perfect. (It should be noted that Fairfax had been cautious on fixed income - expressed as low duration - since late 2016.)

Does value investing also apply to fixed income?

What Fairfax did was a good example of value investing. Long duration bonds, with crazy low yields in 2020 and 2021, provided no margin of safety. Especially later in 2021 when it was clear that the economy was expanding and inflation was quickly becoming a big problem.

Passive management versus active management

Most P/C insurers have a policy of blindly matching the duration of their insurance liabilities with the duration of their fixed income portfolio. So. in 2020 and 2021, other P/C insurers were busy buying 3 and 4 year bonds at historically low yields - they were buying at nose-bleed bubble high prices. Matching duration was the religion of the day. Yield did not matter.

This had been a winning strategy in a zero interest rate world - where interest rates and bond yields only ever went down. The problem with this strategy is it completely ignored interest rate risk and

inflation risk. When the greatest bear market in history came lumbering along it crushed the value of fixed income portfolios of most P/C insurers. This in turn crushed the book value of most P/C insurers. Not Fairfax.

But we are getting a little ahead of ourselves. Back to late 2021.

Fairfax ended 2021 with 77% of its fixed income portfolio in 'cash', 'cash equivalents' and 'bonds of 1 year or less'. This was $28.4 billion of its $37.0 billion fixed income portfolio. This was a 'high conviction' move for Fairfax. (The increase in the 'Due after 10 years' bucket was due to the consolidation of Eurolife.)

	Fairfax Financial	2020		2021	
	Fixed Income Maturity Profile	Fair	Amortized	Fair	Amortized
	Bonds	Value	Cost	Value	Cost
1.)	Due in 1 year or less	$4,935	$4,968	$5,947	$6,023
	Due after 1 year through 5 years	$10,097	$9,378	$6,950	$6,674
	Due after 1 year through 3 years				
	Due after 3 years through 5 years				
	Due after 5 years through 10 years	$719	$654	$531	$534
	Due after 10 years	$545	$419	$1,106	$990
		$16,295	**$15,420**	**$14,534**	**$14,221**
	Pre-tax effective interest rate	3.2%		2.7%	
2.)	Cash and cash equivalents	$5,167		$12,749	
3.)	Short term investments	$8,471		$9,733	
	Total Fixed Income	**$29,932**		**$37,016**	
	Total 1 year or less (1 + 2 + 3)	$18,572		$28,429	
	% of total	62%		77%	

Having a short duration portfolio at the end of 2021 had two key benefits:

- It protected the balance sheet from interest rate risk - a rapid increase in interest rates would cause the value of bonds to plummet. This would then cause book value to fall. Long duration bonds were especially vulnerable.
- It provided valuable optionality - this would allow Fairfax to quickly take advantage of rising interest rates and dislocations in credit markets.

Part 2: 2022 - Start extending duration

November 29, 2023

The big picture

The big economic news in 2022 was the spiking of inflation and the subsequent aggressive tightening by the Fed and global central banks. This in turn caused interest rates to spike, especially short term interest rates. The greatest bond bear market in history accelerated as the year progressed.

US Treasury Rates

2021	1 Month	1 Year	2 Year	3 Year	5 Year	10 Year
31-Dec	0.06%	0.39%	0.73%	0.97%	1.26%	1.52%
2022	**1 Month**	**1 Year**	**2 Year**	**3 Year**	**5 Year**	**10 Year**
31-Mar	0.17%	1.63%	2.28%	2.45%	2.42%	2.32%
30-Jun	1.28%	2.80%	2.92%	2.99%	3.01%	2.98%
30-Sep	2.79%	4.05%	4.22%	4.25%	4.06%	3.83%
31-Dec	4.12%	4.73%	4.41%	4.22%	3.99%	3.88%

Fairfax's fixed income portfolio had an average duration of 1.2 years at Dec 31, 2021. With such a low duration portfolio, as interest rates spiked higher Fairfax saw interest income quickly increase. Interest income bottomed out at $130 million in Q4, 2021. A year later, in Q4, 2022, interest income increased to $314 million, an increase of 141%. The earn-through from higher interest rates was happening very fast for Fairfax.

Fairfax: Interest Income by Quarter

	Q1	Q2	Q3	Q4	FY
	$mn	$mn	$mn	$mn	$mn
2021	$153	$148	$137	$130	**$568**
2022	$153	$176	$230	$314	**$874**
Change	$0	$28	$93	$184	**$305**
%	0%	19%	68%	141%	**54%**

What did Fairfax do in 2022?

In 2022, Fairfax started extending the average duration of their fixed income portfolio - from 1.2 years at the end of 2021, to 1.4 years at the end of Q1, to 1.6 years at the end of 2022. Bonds at the short end of the curve (1-year to 3-year) offered the highest yield and this is where Fairfax bought aggressively.

Fairfax ended 2022 with 47% of its fixed income portfolio in 'cash', 'cash equivalents' and 'bonds of 1 year or less'. This was down significantly from 77%, where it ended 2021.

	Fairfax Financial	2021		2022	
	Fixed Income Maturity Profile	Fair	Amortized	Fair	Amortized
	Bonds	Value	Cost	Value	Cost
1.)	Due in 1 year or less	$5,947	$6,023	$8,193	$8,507
	Due after 1 year through 5 years	$6,950	$6,674		
	Due after 1 year through 3 years			$15,686	$16,078
	Due after 3 years through 5 years			$4,117	$4,206
	Due after 5 years through 10 years	$531	$534	$291	$319
	Due after 10 years	$1,106	$990	$715	$860
		$14,534	**$14,221**	**$29,001**	**$29,969**
	Pre-tax effective interest rate	2.7%		3.6%	
2.)	Cash and cash equivalents	$12,749		$6,756	
3.)	Short term investments	$9,733		$3,292	
	Total Fixed Income	**$37,016**		**$39,049**	
	Total 1 year or less (1 + 2 + 3)	$28,429		$18,240	
	% of total	77%		47%	

Part 3: 2023 - Being opportunistic and going on the offensive

December 5, 2023

<u>The big picture in 2023</u>

The big news in 2023 was that aggressive tightening by global central banks continued. This was unexpected. This in turn caused interest rates to spike even higher.

The unexpected and historically rapid increase in interest rates also started to cause some dislocations in financial markets. Silicon Valley Bank and Signature Bank both went under in April. This created opportunities in credit markets.

In October of 2023, we saw long bond yields spike to 15-year highs. This provided an opportunity for short duration fixed income portfolios to extend duration.

US Treasury Rates

2021	1 Month	1 Year	2 Year	3 Year	5 Year	10 Year	
31-Dec	0.06%	0.39%	0.73%	0.97%	1.26%	1.52%	
2022	**1 Month**	**1 Year**	**2 Year**	**3 Year**	**5 Year**	**10 Year**	
31-Mar	0.17%	1.63%	2.28%	2.45%	2.42%	2.32%	
30-Jun	1.28%	2.80%	2.92%	2.99%	3.01%	2.98%	
30-Sep	2.79%	4.05%	4.22%	4.25%	4.06%	3.83%	
31-Dec	4.12%	4.73%	4.41%	4.22%	3.99%	3.88%	
2023	**1 Month**	**1 Year**	**2 Year**	**3 Year**	**5 Year**	**10 Year**	
31-Mar	4.74%	4.64%	4.06%	3.81%	3.60%	3.48%	
30-Jun	5.24%	5.40%	4.87%	4.49%	4.13%	3.81%	
30-Sep	5.55%	5.46%	5.03%	4.80%	4.60%	4.59%	
18-Oct	5.58%	5.44%	5.19%	5.01%	4.95%	4.98%	peak?
05-Dec	5.54%	5.06%	4.57%	4.33%	4.14%	4.18%	

What did Fairfax do in 2023?

1.) Fairfax was very opportunistic with the dislocation that hit regional banks in the US in March/April.

In March of 2023, Silicon Valley Bank went bankrupt. This was the second largest bank failure in US history. There was a run on the bank (depositors wanted their money) and SVB did not have it - the money was locked up in low-yielding long-dated US treasuries. To meet customer withdrawal requests, SVB was forced to sell its long-dated treasury holdings - and it was forced to book billions in losses. This then resulted in more customer withdrawal requests. To stop the vicious feedback loop, SVB was forced to declare bankruptcy and regulators from the Fed stepped in and closed the bank. Signature Bank was also shut down at the same time by regulators. A full blown financial crisis had emerged with regional banks being at the epicentre.

The cat pounces

As we have discussed, having a very high quality, low average duration fixed income portfolio provides important optionality. Wonderful opportunities that come up unexpectedly can be seized.

Many regional banks were forced to strengthen their balance sheets. To raise liquidity, PacWest Bancorp sold $2.6 billion in real estate construction loans to Kennedy Wilson. They were sold at a $200 million discount. KW's parter on the deal was Fairfax.

> "During the first nine months of 2023 the company, in partnership with Kennedy Wilson, has completed net purchases of $2.0 billion of first mortgage loans acquired from Pacific Western Bank; the average annual return on the capital deployed with the loans is expected to exceed 10%."
> *Fairfax Q3 Interim Report*

Fairfax was able to invest $2 billion of its fixed income portfolio at an expected annual return of 10%, or $200 million. Outstanding.

This deal also highlights another strength of Fairfax: the many partnerships it has built out over the years with many different external capital allocators. This deal was only possible because of the close relationship that Fairfax has with Kennedy Wilson - cultivated over the past 13 years.

2.) In 2023, Fairfax continued to push out the average duration of its fixed income portfolio. They did this in two stages: first, in Q1 and again in October.

In Q1, 2023, the average duration of Fairfax's fixed income portfolio was pushed out from 1.6 years to 2.5 years. This was more than a double from what it was 15 short months previously, at Dec 31, 2021.

It is instructive to look at the significant change in Fairfax's fixed income holdings over the past two years. You can see the shift to longer duration holdings.

	Fairfax Financial	2021		2022		Sept 30, 2023		
	Fixed Income Maturity Profile	Fair	Amortized	Fair	Amortized	Fair	Amortized	
	Bonds	Value	Cost	Value	Cost	Value	Cost	
1.)	Due in 1 year or less	$5,947	$6,023	$8,193	$8,507	$9,330	$9,542	*
	Due after 1 year through 5 years	$6,950	$6,674					
	Due after 1 year through 3 years			$15,686	$16,078	$10,492	$10,618	
	Due after 3 years through 5 years			$4,117	$4,206	$11,290	$11,463	
	Due after 5 years through 10 years	$531	$534	$291	$319	$3,057	$3,092	
	Due after 10 years	$1,106	$990	$715	$860	$458	$535	
		$14,534	**$14,221**	**$29,001**	**$29,969**	**$34,627**	**$35,250**	
	Pre-tax effective interest rate	2.7%		3.6%				
2.)	Cash and cash equivalents	$12,749		$6,756		$4,874		
3.)	Short term investments	$9,733		$3,292		$1,858		
	Total Fixed Income	**$37,016**		**$39,049**		**$41,359**		
	Total 1 year or less (1 + 2 + 3)	$28,429		$18,240		$16,063		*
	% of total	77%		47%		39%		

(*) Incl. 1st mortgage loans at Sept 30, 2023 of $4.6bn (Dec 31, 2022 - $2.5bn) secured by real estate in the U.S., Eur and Can.

3.) In Sept/Oct 2023, bond yields unexpectedly spiked higher - but this time it was further out on the on the curve - 5-year, 10-year and 20-year bonds.

We just learned on the Q3, 2023 conference call that in October, Fairfax has extended the average duration of its fixed income portfolio from 2.5 years to 3.1 years.

"Recently, in October, during the spike in treasury yields, we have extended our duration to 3.1 years with an average maturity of approximately 4 years, and yield of 4.9%."
Prem Watsa - Fairfax Q3, 2023 Conference Call

We will have to wait until Q4 earnings are released to get more complete details of what bonds Fairfax has purchased. This is a significant development for Fairfax and its shareholders. Bond yields have moved much lower in November and early December – Fairfax may have picked the perfect time to meaningfully extend the average duration of their fixed income portfolio and lock in very high bond yields for years.

What does all this mean for interest income at Fairfax?

Interest income was a record of $874 million in 2022. In 2023 it is forecasted to total $1.8 billion, an increase of $950 million or 109%. The earn-through has been very fast for Fairfax - much quicker than most P/C insurers.

My guess is Fairfax is currently earning about $500 million per quarter in interest income. And with the extension of duration, Fairfax has locked much of this in for years. For perspective, Fairfax earned $568 million in interest income for the entire year in 2021.

Fairfax: Interest Income by Quarter

	Q1	Q2	Q3	Q4	FY
	$mn	$mn	$mn	$mn	$mn
2021	$153	$148	$137	$130	**$568**
2022	$153	$176	$230	$314	**$874**
2023E	$362	$443	$492	$530	**$1,827**
YOY	$209	$267	$262	$216	**$954**
Change	136%	151%	114%	69%	**109%**

What have we learned in this post?

Capital allocation is the most important responsibility of a management team. Fixed income is by far the largest part of Fairfax's investment portfolio.

Over the past 3 years, the fixed income team has superbly navigated Fairfax (and Fairfax shareholders) through the greatest fixed income bubble top and subsequent bear market in history. This is yet another example of the outstanding performance we have seen from the management team at Fairfax in recent years.

They sold high - locked in nice gains and, most importantly, they avoided billions in losses. They protected the balance sheet. And then they bought duration on the cheap. They have also been very opportunistic, taking advantage of the high volatility in fixed income markets. And they did all this with a $40 billion portfolio.

Importantly, the fixed income portfolio at Fairfax looks to be very well positioned today. Fairfax has significantly pushed the average duration out - the table is now set for Fairfax to earn in the range of $2 billion in interest income in each of the next 3 years. The portfolio is also very high quality - heavily weighted to government bonds. Fairfax now likely owns the best 'risk-adjusted return' fixed income portfolio in the P/C insurance industry - it is both high yield and very high quality. And Fairfax is well positioned to continue to exploit continued volatility in fixed income markets.

In short, the fixed income team at Fairfax has just delivered a master-class in value investing and the benefits of active management. I think it is safe to say their performance has been best-in-class among P/C insurance companies.

This is just another meaningful example of 'the story' for Fairfax continuing to get better.

Can we quantify the benefit to Fairfax and its shareholders?

November 29, 2023

The benefits have come in two ways. The first has been the significant losses that have been avoided - let's call that balance sheet protection. The second is the significant and rapid increase in interest income.

1.) Balance sheet protection

One way to quantify the value here is to look at book value per share and compare Fairfax to other P/C insurance companies. How did Fairfax do compared to peers? I did this in my previous post so let's try another approach here.

Over the past three years, as the bear market in bonds was raging, many P/C insurers saw the value of their fixed income portfolios decline by double digit amounts. As an example, from Dec 31 2020 to Sept 2023, Chubb has seen a swing of $16 billion in the value of its $105 billion fixed income portfolio (from an unrealized gain of $6.5 billion at Dec 31, 2020, to an unrealized loss of $9.5 billion at Sept 30, 2023). This is a 15.2% swing in value for the fixed income portfolio.

Chubb: Fixed income portfolio			
	Fair Value $bn	Cost $bn	(Losses) Gains $bn
2020YE	$107.6	$101.1	$6.5
2021YE	$106.9	$103.7	$3.2
2022YE	$98.6	$107.0	-$8.4
Sept 30 2023	$105.2	$114.7	-$9.5

What about Fairfax?

From Dec 31, 2020 to Sept 2023, Fairfax has seen a swing in value of $1.5 billion in the value of its $41 billion fixed income portfolio (from an unrealized gain of $900 million to an unrealized loss of $600 million). As we learned above, Fairfax was aggressive in selling corporate bonds in 2021 locking in a gain of $250 million. So, its swing in value can be reduced to $1.25 billion. This is a 3% swing in value.

Fairfax: Fixed income portfolio			
	Fair Value $bn	Cost $bn	(Losses) Gains $bn
2020YE	$29.9	$29.1	$0.9
2021YE	$37.0	$36.7	$0.3
2022YE	$39.1	$40.0	-$1.0
Sept 30 2023	$41.4	$42.0	-$0.6

What if Fairfax had experienced the same swing in value as Chubb = 15.2%

Chubb is a good comparable and likely similar to what has been experienced by many P/C insurers.

On a $35 billion portfolio, a 12% swing in value would have equated to $4.2 billion. (Let's be conservative and use a lower swing number than Chubb's 15.2%.)

Fairfax saw an actual swing in value of $1.25 billion so the difference is $3 billion, or about $93/share after tax and minority interests. To be even more conservative, cut this number by 33% and it is still a massive number of $2 billion before taxes and minority interests.

The bottom line is Fairfax's decision to go extremely low duration in 2021 has benefitted the company and its shareholders in a big way. It protected the company's balance sheet. I think this benefit can be conservatively measured to have been in the billions.

2.) What was the increase in interest income

Interest income at Fairfax averaged about $650 million per year from 2016 to 2021. Fairfax is on track to earn more than $1.8 billion in 2023 and more than $2 billion in 2024. This is an increase of $1.3 billion or 200% over the trend from 2016 to 2021.

What is a new annual income stream of $1.3 billion worth? This is $58/share (yes, it is pre-tax and before minority interests).

Fairfax: Fixed Income				
Nov 14, 2023		Interest Income		
	$bn	$mn	/ Share	Yield
2016	$20.3	$514	$22	2.5%
2017	$28.0	$515	$19	1.8%
2018	$26.7	$744	$27	2.8%
2019	$26.4	$826	$31	3.1%
2020	$29.8	$717	$27	2.4%
2021	$36.8	$568	$24	1.5%
2022	$38.9	$874	$37	2.2%
2023E	$42.0	$1,826	$80	4.3%
2024E	$47.0	$2,140	$96	4.6%
Interest Inc - 2016-2021 avg $647mn/yr or 2.4%				

Summary

The benefits to Fairfax (and Fairfax shareholders) of how the company has managed its fixed income portfolio over the past 3 years can be measured in the $billions. It is impossible to come up with a precise number. What we do know is the value creation has been significant.

Narrative: My guess is most investment professionals have a strong opinion about Fairfax. Ask these same people to explain to you what Fairfax has done with their fixed income portfolio over the past 3 years and my guess is only 1 in 10 would be able to provide an accurate/satisfactory answer. That partly explains why narratives on a company can be completely wrong at times. Most investment professionals don't follow companies all that closely. Usually, they don't need to.

But the fundamentals matter. Eventually investors do figure it out. And the narrative slowly gets updated (and brought closer to reality). And the stock price as well.

Family control: At the Fairfax AGM this year (April 2023), a bunch of Fairfax shareholders met at the Keg one night for dinner and Ben Watsa came by for a visit and to say a few words. He commented about the positioning of the fixed income portfolio in 2021 (very low duration) and suggested this might be a good example for Fairfax shareholders of the benefit of family control.

With family control, it is easier for Fairfax to accept quarterly volatility and instead run the business with a long term focus. (Please note, these are my words and not Ben's.)

What do Fairfax, Berkshire Hathaway, Markel and WR Berkley all have in common? They are all P/C insurers (float is a beautiful thing). They all have exceptional long term track records of compounding shareholder value. And they are all family controlled. The last point might be the most important.

Chapter 15: Investments – Real Estate

Fairfax has been increasing its exposure to real estate in recent years. This is primarily being done though their close partnership with Kennedy Wilson. Fairfax also picked up some real estate assets as part of the Toys "R" Us purchase in April of 2018 (Fairfax purchased the Canadian operations of Toys "R" Us out of bankruptcy and then sold the retail operation in Aug 2021 and kept the real estate assets). Recipe (84% owned by Fairfax) also has some real estate in its portfolio of assets that were acquired as part of the St-Hubert acquisition in March of 2016.

Fairfax also has exposure to real estate in Greece through its ownership of Grivalia Hospitality. Eurobank also has significant real estate holdings that were acquired when it merged with Grivalia Properties in 2019.

Kennedy Wilson (KW)

April 20, 2025

The last time financial markets were in turmoil was during the US regional banking crisis in spring of 2023. Fairfax & Kennedy Wilson were opportunistic. The initial investment in PacWest loans has performed very well. More importantly they used the crisis to build a new business/income stream - making both companies stronger in the process.

There are many really important lessons that come from this investment:

- Relationships matter. Fairfax has built an extensive network of external relationships/partnerships across industries and geographies.
    - This capability leads to deal flow. Fairfax's phone is starting to ring again.
- This is a great example of how extreme volatility in financial markets has been a good thing for Fairfax and its shareholders. Something to keep in mind in the current environment.

In June of 2023, Kennedy Wilson and Fairfax purchased a $4.5 billion construction loan portfolio from PacWest. **PacWest was caught in the regional bank crisis and they were forced to sell their best assets at a discount**. At Fairfax's AGM in April 2025, Bill McMorrow from Kennedy Wilson provided an update. How has the investment performed? Was it a good decision?

There are two angles to this transaction:

1. Initial transaction – purchase of the $4.5 billion construction loan portfolio.

    - 27 of those 65 loans have been paid off at par (they were bought at a discount).
    - Since inception, the loans have generated almost $500 million of interest income.
    - The current portfolio is generating roughly $350 million a year in interest income.

2. Building the business

    - One of the conditions of the original deal with PacWest was the 40 people who were running the loan portfolio would also move over the Kennedy Wilson.
    - At the same time, the regional banks backed away from the multifamily and student housing market.
    - Over the past 18 months, the new team at Kennedy Wilson has generated about $5.5 billion of new loan originations.
    - As a result, interest income of $350 million is expected to grow significantly in the coming years.

"It was another one of these success stories that really turned out well for both our companies."

Bill McMorrow – Fairfax AGM April 2025

March 15, 2025

Prem's comments about Kennedy Wilson from Fairfax's 2024AR.

"Since we met Bill McMorrow and Kennedy Wilson in 2010, we have invested $1.3 billion alongside them in real estate, have received cash proceeds of $1.1 billion and still have real estate worth about $650 million. Our average annual realized return on completed projects is approximately 22%. We also own 10% of the company. More recently, we have been investing with Kennedy Wilson and the team from Pacific Western Bank that joined them, in first mortgage loans secured by high-quality apartment buildings predominantly in the western parts of the United States, with a loan-to-valuation of 52%. At the end of 2024, we had invested in $4.4 billion of first mortgage loans in the U.S. at an average yield of 7.8% and an average maturity of 1.7 years with two, one-year renewal rights, and in $440 million of first mortgage loans in the U.K. and Ireland at an average yield of 6.9% and an average maturity of 1.6 years." *Prem Watsa – Fairfax 2024AR*

Update December 8, 2023

On December 6th Kennedy Wilson made two regulatory filings than involved Fairfax.

1.) Kennedy Wilson and Fairfax increased their commitment to the KW debt platform by $2 billion, from $8 billion to $10 billion.

"On December 6, 2023, Fairfax Financial Holdings Limited, a company organized under the laws of Canada ("Fairfax"), and a current partner of Kennedy-Wilson Holdings, Inc. (the "Company"), has increased its first mortgage commitment within the Company's debt investment platform by $2 billion to $10 billion (the "Commitment"), bringing total commitments under the Company's global debt platform with all investors to $11 billion. Pursuant to the terms of the Commitment, such funds will constitute non-discretionary capital, with each investment on the platform continuing to be subject to Fairfax's review and approval. The Company expects to continue to hold approximately 2.5% equity interest in future debt investments within the platform while earning customary fees in its role as asset manager. As of September 30, 2023, the Company held interests in 98 loans, located in the United States and the United Kingdom, with an unpaid principal balance ("UPB") of $4.7 billion of real estate debt (of which the Company's share was a UPB of $256 million). Under these loans, the Company and its partners have future funding commitments of $1.8 billion (of which the Company's share is $93 million)."

https://otp.investis.com/clients/us/kennedy_wilson1/SEC/sec-show.aspx?Type=html&FilingId=17105435&CIK=0001408100&Index=10000

2.) The two preferred stock / warrant agreements Fairfax recently signed with Kennedy Wilson in 2022 and 2023 were amended to allow Fairfax to own up to 27.5% of KW stock (up from 20%).

"The amendment primarily provides for an increase to Fairfax's cap on purchases of any of the Company's common stock, or other equity-linked securities, from 20% of the Company's fully diluted common stock to an amount not to exceed (x) the beneficial ownership… of 27.5% of the total voting power of the Company's voting stock nor (y) 27.5% of the Company's fully diluted common stock. As a result of the amendments to the SPAs, Fairfax will be permitted to purchase additional shares of the Company's common stock in the open market. There can be no assurance that Fairfax will make any such purchases."

https://otp.investis.com/clients/us/kennedy_wilson1/SEC/sec-show.aspx?Type=html&FilingId=17105470&CIK=0001408100&Index=10000

August 1, 2023

Kennedy Wilson is a misunderstood and underappreciated part of Fairfax's investment portfolio. Most investors look at Kennedy Wilson through the lens of an equity holding. Looking at the performance of KW's stock price the past 5 years… what a dog! Woof! KW shares were trading around $21.40 five years ago and today they closed at $16.44/share.

What a terrible investment by Fairfax. Right? Wrong.

Kennedy Wilson has been one of Fairfax's best investments. What is wrong with the analysis above? It completely misses the point of WHY Fairfax invested in KW in the first place (and remains invested) – it was/is to tap into Kennedy Wilson's extensive global real estate expertise.

First, let's do a quick review.

Fairfax began its relationship with Kennedy Wilson in 2010. A very successful real estate investment partnership has recently blossomed to now include a significant real estate debt platform. Over the past 3 years, Kennedy Wilson has become a much more important part of Fairfax's investment portfolio. The partnership now includes both equity and fixed income investments:

- 2010: $100 million direct investment in Kennedy Wilson stock
- 2010: Real estate investment partnerships
- 2020: Real estate debt platform
- 2022: $300 million debenture (4.75%)
    - 7-year warrants for 13 million common shares with strike price of $23.
- 2023: Purchase of $2.3 billion in real estate loans from PacWest.
- 2023: $200 million debenture (6%)
    - 7-year warrants for 12.3 million common shares with strike price of $16.21

<u>How much does Fairfax currently earn annually from its different investments with KW?</u>

My very rough estimate is around $481 million. Fairfax has about $5.7 billion invested with Kennedy Wilson so this represents about an 8.4% annual rate of return for Fairfax.

Of this total, about $429 million is interest and dividends. The PacWest loan transaction just closed so the incremental earnings from this investment will start to show in the interest and dividend income bucket starting in Q3.

Kennedy Wilson					
Estimate of the amount earned annually by Fairfax across all KW investments					
01-Aug-23					
		Amount	Rate	Total $	Total $
Real Estate Debt Platform		$2,400	7.9%	$189.6	$189.6
PacWest Loan Portfolio		$2,000	10%	$200.0	$200.0
Total Interest Earned					**$389.6**
			Dividend		Annual
		Shares	$ / Share	Total $	Total $
Dividend	Common Stock	13.3	$0.24	$3.2	$12.8
		amount	rate	Total $	
Debentures	2022	$300	4.75%	$14.3	$14.3
Debentures	2023	$200	6%	$12.0	$12.0
Total Dividend Earned					**$39.0**
		Shares	Strike	KW stock	
		Million	Price	01-Aug-23	Total $
Warrants	2022	13	$23.00	$16.44	$0.0
Warrants	2023	12.3	$16.21	$16.44	$2.8
Legacy Real Estate Investment Partnership - rough estimate					$50.0
Total Investment Gains - rough estimate					**$52.8**
Total - Interest and Dividends					**$428.6**
Grand Total - Estimated amount earned across all KW investments					**$481.4**

The expansion of the relationship with Kennedy Wilson provides another good example of how Fairfax, over the last 5 years, has been:

- Leveraging and expanding existing, successful, long-term partnerships.
- Methodically diversifying their investment portfolio - in this case into real estate.

The result is yet another new, growing, significant and steady stream of earnings for Fairfax.

What is the timeline of Fairfax's various investments in/with Kennedy Wilson?

<u>Started in 2010</u>

- Kennedy Wilson (KW) stock
  - Initial equity investment was US$100 million (9% of company).
  - Today position is worth $200 million (13.3 million shares x $14.98/share).
  - Current annual dividend of $0.96 = 6.4% yield
  - Wade Burton is on the board (with Stanley Zax, who sold Zenith to Fairfax in 2010).

- investment partnership:
    - Started with $278 million in 2010.
    - Prem's 2022 letter: "we have invested $1.2 billion alongside with them in real estate, have received cash proceeds of $1.1 billion and still have real estate worth about $570 million. Our average annual realized return on completed projects is approximately 22%."

Expanded in 2020

- Launched a real estate debt platform: to pursue first mortgage loans secured by high-quality real estate in the Western U.S., Ireland and the U.K.
    - 2020, initial amount of $2 billion.
    - 2022, increased to $5 billion
    - Prem's 2022 letter: "$2.4 billion invested through Kennedy Wilson in well-secured first mortgages, primarily on high quality residential apartment buildings, at a floating rate (currently 7.9%)" = $190 million in interest income.

Expanded further in 2022

- 2022: KW perpetual preferred equity investment = $300 million
    - Pays an annual dividend of 4.75% = $14.25 million.
    - Includes 7-Year warrants for 13 million shares at strike price of $23/share.

Expanded further in 2023

- PacWest debt purchase of $2.3 billion: KW is buying loans at a discount for $2.1 billion, of which Fairfax is buying $2 billion (95%). Fairfax is also assuming $1.7 billion in future funding obligations.
    - Average loan to value is 51%.
    - More than 70% of the loans relate to multifamily or student residences; the remainder are a mix of industrial, hotel and life sciences office property projects.
    - Fairfax expects the average annual return to exceed 10%.
    - Remaining term to maturity is 1.7 years; some loans carry extension rights (max 2 years).

- 2023: KW perpetual preferred equity investment = $200 million
    - Pays an annual dividend of 6% = $12 million.
    - Includes 7-Year warrants for 12.3 million shares at strike price of $16.21/share.

Ownership of stock:

- Kennedy Wilson has 139.4 million shares outstanding.
- Fairfax owns 13.3 million = 9.5%
- Fairfax also owns warrants:
    - 13 million at $23
    - 12.3 million at $16.21
- If Fairfax exercises all warrants it would own 38.6 million shares = 23.4% (of 164.7 total)

Fairfax is getting paid 4.75% and 6% while waiting for the warrants to get in the money (they have seven years).

What does Fairfax see in Kennedy Wilson?

Prem's comment from the 2022 press release from KW announcing the PacWest transaction:

> "We are pleased to make this new investment in Kennedy Wilson and to build on our outstanding partnership that dates back to 2010," said Prem Watsa, Chairman and CEO of Fairfax. "We believe in their global business model, the strength of their high-quality, income-generating assets, and their best-in-class management team." *Prem Watsa – 2022 Presse Release from Kennedy Wilson*

To learn more about Kennedy Wilson:

Company web site: https://ir.kennedywilson.com

Q4 2022 Investor Presentation: https://ir.kennedywilson.com/~/media/Files/K/Kennedy-Wilson-IR-V2/reports-and-presentations/presentations/q4-2022-investors-presentation.pdf

Interesting trivia point: Bill McMorrow (CEO and Chairman of KW) was the genesis behind Fairfax's investment in Bank of Ireland in 2011. Fairfax made around $1 billion from that one investment. Thank you, Bill! (see Prem's comments below from 2011AR)

Related Source Material

2020: Kennedy Wilson and Fairfax Launch New $2 Billion Real Estate Debt Platform

> "Kennedy Wilson and Fairfax first invested together in 2010 when the two companies acquired $250 million of real estate assets, including real estate secured loans and real property. Over the past decade, the companies have partnered on $7 billion in aggregate acquisitions, including over $3 billion of real estate related debt investments. In addition, Fairfax currently has an equity ownership interest in Kennedy Wilson of approximately 9%."
>
> https://ir.kennedywilson.com/news-events-and-presentations/press-releases/2020/05-14-2020-105955816

2022: KW Announces $300 Million Perpetual Preferred Equity Investment from Fairfax Financial

> "Kennedy Wilson and Fairfax began their relationship in 2010 when Fairfax made a $100 million equity investment in Kennedy Wilson. Over the past decade, the companies have partnered on $8 billion in aggregate acquisitions, including approximately $5 billion of real estate related debt investments. Fairfax currently has an equity ownership interest in KW of approximately 9%."
>
> https://ir.kennedywilson.com/news-events-and-presentations/press-releases/2022/02-23-2022-211613501

2023: Fairfax Financial Partners With Kennedy Wilson to Acquire Loan Portfolio From Pacific Western Bank, Makes Additional Equity Investment in Kennedy Wilson

https://www.fairfax.ca/press-releases/fairfax-financial-partners-with-kennedy-wilson-to-acquire-loan-portfolio-from-pacific-western-bank-makes-additional-equity-investment-in-kennedy-wilson-2023-06-05/

Kennedy Wilson's Press Release

"The acquisition of this Loan Portfolio from Pacific Western Bank highlights Kennedy Wilson's historic ability to find off-market transactions during periods of uncertainty, move with speed, and build on our successful track record of investing through all real estate cycles," said William McMorrow, Chairman and CEO at Kennedy Wilson. "The foundations of Kennedy Wilson are our deep relationships, our reputation as a great partner, and our strength in being nimble when opportunity arises; all of which came into play with this loan portfolio acquisition."

https://ir.kennedywilson.com/news-events-and-presentations/press-releases/2023/06-09-2023-110020523

Prem's comments about Kennedy Wilson from Fairfax's 2022AR.

"Since we met Bill McMorrow and Kennedy Wilson in 2010, we have invested $1.2 billion alongside with them in real estate, have received cash proceeds of $1.1 billion and still have real estate worth about $570 million. Our average annual realized return on completed projects is approximately 22%. We also own 10% of the company. More recently we have been investing with Kennedy Wilson in first mortgage loans secured by high quality real estate in the western United States, Ireland and the United Kingdom with a loan-to-value ratio of 60% on average. At the end of 2022, we had invested in $2.0 billion of mortgage loans in the U.S. at an average yield of 8.1% and an average maturity of 1.7 years, and in approximately $350 million of mortgage loans in the U.K. and Europe at an average yield of 6.0% and an average maturity of 2.5 years." *Prem Watsa – Fairfax 2022AR*

"The combination of interest and dividends and profit from associates accounted for a 3.7% return on our portfolio in 2022, the highest return in the last five years (average 2.5%). We expect to earn these returns in 2023 as well, partly because we have $2.4 billion invested through Kennedy Wilson in well-secured first mortgages, primarily on high quality residential apartment buildings, at a floating rate (currently 7.9%)." *Fairfax 2022AR*

Fairfax's comments about KWF LP partnerships from Fairfax's 2013AR.

"The KWF LPs are partnerships formed between the company and Kennedy-Wilson, Inc. and its affiliates to invest in U.S. and international real estate properties. The company participates as a limited partner in the KWF LPs, with limited partnership interests ranging from 50% to 90%. Kennedy-Wilson holds the remaining limited partnership interests in each of the KWF LPs and is

also the General Partner. For the KWF LPs where the company may exercise veto rights over one or more key activities, those partnerships are considered joint ventures under IFRS 11. Where the company has no veto rights over key activities, the company is considered to have significant influence under IAS 28. The equity method of accounting is applied to all of the KWF LPs." *Fairfax 2013AR*

Prem's comments about Kennedy Wilson from Fairfax's 2011AR.

"I have attended the Berkshire Hathaway shareholders' meeting since there were only 200 shareholders in attendance about 30 years ago. I still find I learn something each year from Warren and Charlie. At the meeting in 2010, I met Bill McMorrow through Alan Parsow, who is a money manager based in Omaha and a great friend. Bill founded Kennedy Wilson, a real estate services and investment company, in 1988, and he now owns 26% of the company. As a result of this meeting, we invested $100 million in a Kennedy Wilson 6% preferred convertible at $12.41 per share, and later purchased $32.5 million of a 6.45% preferred convertible at $10.70 per share and 400,000 common shares at $10.70 per share. Fully diluted we own 18.5% of the company. In 2010 and 2011, we also invested $290 million in several real estate deals with Kennedy Wilson in California, Japan and the U.K. – deals at significant discounts to replacement cost and with excellent unlevered cash on cash returns, in which Kennedy Wilson is the managing partner and a minority investor. We are thrilled to be partners with Bill and his team, who always focus on the downside and have the expertise to manage these investments and finally harvest them. You never know what you will find at a Berkshire meeting!!"

"And there is more to the McMorrow story. While Bill was negotiating the purchase of some real estate loans from Bank of Ireland, he was really impressed with Ritchie Boucher, the Bank's CEO. Bill introduced Ritchie to us, and we too were very impressed. With the help of our friends at Canadian Western Bank, one of the best banks in Canada, we thoroughly reviewed the opportunity and then quickly formed an investment group with Wilbur Ross, Mark Denning from Capital Research and Will Danoff at Fidelity, which purchased $1.6 billion of Bank of Ireland shares on a rights issue (Fairfax's share was $387 million)." *Prem Watsa – Fairfax 2011AR*

Chapter 16: Investments – Equities – Current Holdings

A Quiet Transformation – A Powerful Engine of Value Creation Emerges

At December 31, 2025, Fairfax's investment portfolio totalled ~$76 billion, composed of:

- Fixed income: ~$50B (66%)
- Equities: ~$26B (34%)

In this chapter will explore Fairfax's equity holdings.

Over the past 8 years, Fairfax's equity portfolio has experienced a dramatic transformation. What happened?

- Poorly performing holdings were dealt with - fixed, restructured, sold, taken private, merged or wound down
- New money has been invested wisely

Today, Fairfax's collection of equity holdings (for the most part):

- Are very well managed
- Have solid balance sheets
- Are profitable
- With solid prospects

As a result, the 'quality' of Fairfax's collection of equity holdings today has never been higher.

Higher quality = higher return

The return Fairfax has been earning on its total investment portfolio has popped higher in recent years - over the past 5 years, the average return has been a stellar 8.7%. A big reason for the increase has been the improving performance of the equity holdings. Importantly, it is positioned to become a major driver of shareholder returns.

Narrative

Despite what has been happening, the prevailing narrative is Fairfax is a poor equity investor.

As we will learn, the data strongly disagrees.

Analytical Tools

To help us better understand Fairfax's equity portfolio we have developed a number of different tools. Each one provides us with a piece of information. Like the pieces of a puzzle, when put together they show us a more complete picture.

1. Master tracker
    - What Fairfax owns today – by holding
    - Tracks the quarterly change in value

2. Size rankings – Top 30 holdings
    - Shows portfolio concentration and composition (public vs private)

3. Performance tool #1 (Short term: 1-year perspective)
    - How have the 10 largest public holdings performed in 2025?

4. Performance tool #2 (Medium term: 5-year perspective)
    - What have been the 10 most impactful public holdings of the past 5 years?

When investing in equities: Control or non-control? Public or private?

January 6, 2026

Fairfax's equity investments generally fall into two broad categories, based on ownership/control.

1. Control Positions

A control position exists when Fairfax owns more than 50% of a company's equity or voting power.

- These investments are primarily private companies, but also include select publicly traded businesses where Fairfax has voting control (such as Fairfax India and Dexterra).

Advantages of control positions

- Ability to select/change management
- Control over capital allocation
- Potential tax advantages

Primary disadvantage

- Liquidity: control investments can be difficult to exit, particularly if an investment underperforms.

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2. Less-Than-Control Positions

These are investments where Fairfax owns less than 50% of the equity or voting power.

- They are mostly public companies, though some privately held investments (such as Poseidon) also fall into this category.
- These holdings are either mark-to-market or equity-accounted (associates).

Advantages of non-control positions

- Liquidity: positions can be entered or exited relatively easily—an important safeguard when an investment thesis breaks.
- Opportunity from volatility: market dislocations occasionally allow Fairfax to buy good or great businesses at very attractive prices.

Disadvantages

- Limited ability to change management if performance deteriorates
- No direct control over capital allocation, even when it is suboptimal

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Size Matters: Small is a Structural Advantage

Despite its scale, Fairfax remains relatively small compared to global institutional investors. This is a meaningful advantage.

- Re-investment: its opportunity set is broad
- Liquidity: it can move into and out of positions efficiently
- Concentration: individual investments can still be sized large enough to materially impact overall performance

This flexibility enhances Fairfax's ability to exploit both control and non-control opportunities across public and private markets.

How Fairfax Chooses Between the Options

There is no rigid preference for control vs. non-control, or public vs. private. Instead, Fairfax evaluates each opportunity on a simple but demanding standard:

- Which option offers the best long-term, risk-adjusted return for shareholders?

This pragmatic approach allows Fairfax to cast a wide net, remain opportunistic, and allocate capital where it believes the odds are most favorable. Over time, this flexibility—combined with improving portfolio quality—should translate into stronger and more durable returns for shareholders.

Master Tracker & Quarterly Change in Market Value – Q1-2026

March 31, 2026

A Warning

When looking at Fairfax's equity holdings, what ultimately matters is the underlying business performance of those holdings over time – not the quarter-to-quarter change in market value. Short term (quarterly) changes in market value are inherently volatile and should therefore be viewed with an appropriate degree of skepticism.

So why track quarterly changes at all?

Because they are interesting and because they can provide early insight into one of Fairfax's largest income streams—investment gains (and losses)—ahead of reported earnings. Importantly, over time (like a couple of years), changes in market value of the equity holdings should roughly match changes in intrinsic business value.

Q1-2026 Summary

- Portfolio decrease: ~$486M (pre-tax), or 1.7%.
- Quarter-end equity value: ~$28.5 billion

Fairfax's equity portfolio performed very well over the first 2 months of 2026 (up more than $1 billion). War in the Persian Gulf broke out at the beginning of Match. This hit Fairfax's equity holdings hard and the big gains reversed to a modest loss at March 31.

Fairfax: Performance of Equity Portfolio - Q1-2026					Per Share
Split by Accounting Treatment	Mar 31	Dec 31	Increase		Diluted
A.) Mark to market	$ 13,976	$ 13,978	$ (3)	0.0%	-$0.12
B.) Associates	$ 9,847	$ 9,944	$ (97)	-1.0%	-$4.26
C.) Consolidated	$ 4,664	$ 5,050	$ (386)	-7.7%	-$17.02
Total Equity Portfolio	**$ 28,487**	**$ 28,972**	**$ (486)**	**-1.7%**	**-$21.40**

Portfolio Composition by Accounting Treatment

- Mark to market = 49%
- Associate and consolidated = 51%

Fairfax: Equity Portfolio: Split by Accounting Treatment				
	Mar 31, 2026		Own / control	
A.) Mark to market	$ 13,976	49%	Own < 20%	
B.) Associates	$ 9,847	35%	Own 20 to 50%	Significant infl. but not control
C.) Consolidated	$ 4,664	16%	Own > 50%	Control
Total Equity Portfolio	**$ 28,487**	**100%**		

Total Return by Accounting Treatment

The mark to market bucket finished the quarter flat. The decline was centered in the Associate and Consolidated holdings. As a result, the impact on Q1 reported results (investments gains/losses) will be minimal.

Fairfax: Performance of Equity Portfolio		
Split by Accounting Treatment	Total	Per Share
Q1-2026 (to Mar 31)	US$ m	Diluted
A.) Mark to market	$ (3)	-$0.12
B.) Associates	$ (97)	-$4.26
C.) Consolidated	$ (386)	-$17.02
Total Increase	**$ (486)**	**-$21.40**

Major Movers – Q4

Strongest contributors:

- Fairfax's various oil holdings (Strathcona, Greenfire and Occidental Pertoleum) finished the quarter up $390 million.
- Orla Mining (gold) was also up nicely.

Laggards:

- Fairfax total return swap position was the biggest decliner, down $375 million, reflecting weakness in Fairfax's share price. The decline in Fairfax's share price in the quarter (11%) was similar to the decline experienced by many P/C insurance peers (Markel was down 11% and Intact Financial was down 12%).
- Indian stocks sold off pretty hard in the quarter, which impacted Thomas Cook India.
- Currency was also a headwind (strong US$).

Fairfax: Big Movers in the Equity Portfolio		
Q1-2026 (to Mar 31)	**Change**	**Accounting Treatment**
Orla Mining (incl CB & warr)	$ 201	Mark to market
Waterous - Strathcona	$ 149	Mark to market
Occidental Petroleum	$ 131	Mark to market
Waterous III - Greenfire	$ 110	Associates
FFH-TRS	$ (363)	Mark to market
Thomas Cook India	$ (209)	Consolidated
Metlen	$ (153)	Mark to market
AGT Food & Ingredients	$ (114)	Consolidated
Eurobank	$ (101)	Associates
Total Increase (all holdings)	**$ (486)**	

Excess of Fair Value Over Carrying Value (FV – CV)

Estimate of excess of FV over CV at December 31, 2025:

- ~ $2.7 billion
- ~ $122 per diluted share (pre-tax)

For context, this figure was ~ $3.1 billion at December 31, 2025.

Despite the small decline in Q1, FV – CV for non-insurance associate and consolidated holdings has materially increased in size in recent years. It represents real economic value that is not captured in EPS or book value—clear evidence that accounting metrics understate Fairfax's true economic performance.

Note: Carrying values are as of Dec-31-2025, so FV-CV may be slightly overstated.

Additional Notes on Tracker:

- Updated to include annual, interim and 13F reports and news releases
- FFH-TRS included at notional value
- Convertibles, warrants and debentures included in the mark to market bucket
- Digit (India) excluded (some of which is market to market) – shares down modestly in Q1
- Currency was a modest headwind in Q1 – impact on reported results is complex (net of hedging)

The tracker is not an exact match of Fairfax's actual equity holdings. It is useful only as a rough guide (both for holdings and change in value).

Fairfax Financial - Summary of Equity Holdings (Page 1 of 2)

				$ US Market Value					owned	22.2 Local Currency	Diluted
	A.) Equities - Mark to Market		own	Total	Total	Change		Carrying	shares	2026	2025
	Ticker	Stocks	%	31-Mar	31-Dec	(mill $)	%	Value	(million)	31-Mar	31-Dec
$C	OLA.TO	Orla Mining	17.6%	$ 511	$ 428	$ 83	19%		31.8	$ 22.37	$ 18.46
EGP	EGS6012	Com Int Bank - Egypt	7%	$ 527	$ 514	$ 13	3%		237.9	$ 121.00	$ 103.00
$C	FOM.V	Foran Mining	22.6%	$ 472	$ 448	$ 24	5%		121.9	$ 5.39	$ 5.04
EUR	MYTIL.AT	Metlen Energy & Meta	8.3%	$ 461	$ 614	$ (153)	-25%		11.9	€ 33.44	€ 43.80
$US	UA	Under Armour		$ 376	$ 351	$ 25	7%		65.0	$ 5.78	$ 5.40
$US	OXY	Occidental Petroleum	0.6%	$ 357	$ 226	$ 131	58%		5.5	$ 64.95	$ 41.12
$US	CVS	CVS		$ 195	$ 215	$ (20)	-10%		2.71	$ 71.82	$ 79.36
C$	ALS.TO	Altius Minerals	14.4%	$ 235	$ 199	$ 36	18%		6.7	$ 48.93	$ 40.84
$US	CLF	Cleveland-Cliffs		$ 126	$ 198	$ (72)	-36%		14.9	$ 8.44	$ 13.28
$US	KW	Kennedy Wilson	10%	$ 144	$ 129	$ 15	12%		13.3	$ 10.83	$ 9.67
	MTM - Top 10 Holdings			**$ 3,404**	**$ 3,322**	**$ 82**	**2%**				
	MTM - Smaller Holdings										
$US	BB	BlackBerry	8%	$ 114	$ 133	$ (19)	-14%		35.0	$ 3.26	$ 3.79
$US	KHC	Kraft Heinz		$ 115	$ 124	$ (9)	-7%		5.1	$ 22.49	$ 24.25
$C	ESI.TO	Ensign Energy Services	18.2%	$ 95	$ 68	$ 28	41%		36.6	$ 3.63	$ 2.54
$US	ATS	ATS Corp		$ 70	$ 68	$ 2	2%		2.49	$ 28.20	$ 27.54
$US	TAP	Molson Coors		$ 58	$ 62	$ (5)	-8%		1.34	$ 43.06	$ 46.68
$US	VOO	S&P500		$ 35	$ 37	$ (2)	-5%		0.058	$ 597.74	$ 627.13
$US	HP	Helmerich & Payne		$ 42	$ 34	$ 9	26%		1.174	$ 36.03	$ 28.68
$US	GM	General Motors		$ 28	$ 31	$ (3)	-8%		0.376	$ 74.51	$ 81.32
$US	TSM	Taiwan Semi		$ 32	$ 28	$ 3	11%		0.094	$ 337.96	$ 303.89
$US	BNS	Bank of Nova Scotia		$ 25	$ 26	$ (2)	-6%		0.359	$ 69.32	$ 73.69
$US	PFE	Pfizer		$ 25	$ 22	$ 3	13%		0.890	$ 28.02	$ 24.90
$US	MRK	Merck		$ 21	$ 18	$ 3	14%		0.173	$ 120.31	$ 105.26
$US	JNJ	Johnson and Johnson		$ 18	$ 15	$ 3	18%		0.073	$ 244.47	$ 206.95
	Remaining Smaller Holdings			$ 3,045	$ 3,045						
	Total Smaller Holdings			**$ 3,722**	**$ 3,712**	**$ 11**	**0%**				
	Total Mark To Market (Top 10 + Smaller H			**$ 7,126**	**$ 7,033**	**$ 93**	**1%**				
	BDT Capital Partners			$ 975	$ 975	$ -	**0%**				
	ShawKwei & Partners			$ 545	$ 545	$ -	**0%**				
C$	SCR.TO	Waterous-Strathcona	7.3%	$ 469	$ 320	$ 149	47%		15.5	$ 42.14	$ 28.33
	Other Limited Partnerships			$ 540	$ 540	$ -	**0%**				
	Total Limited Partnerships			**$ 2,529**	**$ 2,380**	**$ 149**	**6%**				
	Total A: Mark to Market			**$ 9,655**	**$ 9,413**	**$ 242**	**3%**			**$ 10.90**	

Fairfax Financial - Summary of Equity Holdings (Page 2 of 2)

	Yahoo Fin Ticker	Stocks	own %	$ US Market Value Total 31-Mar	Total 31-Dec	Change (mill $)	Change %	31-Dec Carrying Value	owned shares (million)	Local Currency 2025 31-Mar	2025 31-Dec
	B.) Associates - Equity Accounted (gains or losses do not flow through financial statements)										
EUR	EUROB.AT	Eurobank	32.7%	$ 4,603	$ 4,704	$ (101)	-2%	$ 2,724	1,169	€ 3.408	€ 3.425
$US	Private	Poseidon	45.0%	$ 2,640	$ 2,640			$ 2,046	132	$ 20.00	$ 20.00
$US	Private	EXCO Resources	49.3%	$ 592	$ 592			$ 513	22.9	$ 25.83	$ 25.83
C$	GFR.TO	Waterous-Greenfire	55.8%	$ 444	$ 334	$ 110	33%	$ 400	70	$ 8.84	$ 6.55
LKR	JHK.N000	John Keells Hold PLC	26.5%	$ 274	$ 328	$ (53)	-16%	$ 199	4,700	$ 18.40	$ 21.60
$US	Private	Kennedy Wilson Partnerships		$ 300	$ 300			$ 300			
INR	QUESS.BO	Quess	34.8%	$ 93	$ 118	$ (25)	-21%	$ 198	51.6	₹ 168.9	₹ 205.7
INR	IGITIDE.B	Digitide Solutions	34.8%	$ 41	$ 75	$ (34)	-45%		51.2	₹ 75.0	₹ 131.5
INR	JSPRING.	Bluspring Enterprises	34.8%	$ 28	$ 38	$ (10)	-26%		51.2	₹ 51.0	₹ 66.1
PLN	AST.WA	Astarta Holdings NV	30%	$ 98	$ 94	$ 4	5%		7.5	$ 48.50	$ 44.80
$US	HFPC-U.TO	Helios Fairfax Partners	36%	$ 91	$ 55	$ 37	67%	$ 163	37.3	$ 2.45	$ 1.47
INR	FLCAPS.B(	IIFL - Capital Services	3.38%	$ 27	$ 42	$ (15)	-35%		10.3	₹ 243.9	₹ 363.5
C$	BAMI.TO	Blue Ant	23%	$ 26	$ 37	$ (11)	-29%		6.4	$ 5.65	$ 7.88
		Other Associates		$ 590	$ 590			$ 870			
	Total B: Associates - Equity Accounted			**$ 9,847**	**$ 9,944**	**$ (97)**	**-1%**	**$ 7,413**		**$ (4.35)**	
									FV vs CV	**$ 2,435**	**$ 110**
	C.) Consolidated Equities (gains or losses do not flow through financial statements)							Dec 31			
$US	FIH-U.TO	Fairfax India	42.7%	$ 924	$ 996	$ (71)	-7%	$ 725	57.6	$ 16.05	$ 17.29
C$	Private	Recipe	100%	$ 690	$ 690			$ 690	49.4	$ 13.96	$ 13.96
	Private	Sleep Country	100%	$ 600	$ 600			$ 600			
C$	AGTF.TO	AGT Foods & Ingred.	57.0%	$ 519	$ 632	$ (114)	-18%	$ 632	37.7	$ 19.14	$ 23.00
	Private	Grivalia Hospitality	84.0%	$ 529	$ 529			$ 529	339	$ 1.56	$ 1.56
$US	Private	Peak Achiev. (Bauer)	100%	$ 500	$ 500			$ 500			
INR	THOMAS(	Thomas Cook India	64.0%	$ 288	$ 496	$ (209)	-42%	$ 222	300	$ 89.55	$ 148.80
$US	Private	Meadow Foods	95%	$ 300	$ 300			$ 300			
C$	DXT.TO	Dexterra	50.0%	$ 274	$ 266	$ 7	3%	$ 105	31.4	$ 12.14	$ 11.64
$US		Other Consolidated		$ 40	$ 40			$ 40			
	Total C: Consolidated Equities			**$ 4,664**	**$ 5,050**	**$ (386)**	**-8%**	**$ 4,343**		**$ (17.41)**	
									FV vs CV	**$ 321**	**$ 14**
	Total: A + B + C			**$ 24,166**	**$ 24,407**	**$ (241)**	**-1.0%**				
	D.) Other Holdings: Total Return Swaps										
$US	FRFHF	Fairfax Total Return Swaps		$ 2,996	$ 3,359	$ (363)			1.760	$ 1,702	$ 1,908
	Total D: Other			**$ 2,996**	**$ 3,359**	**$ (363)**				**$ (16.34)**	
	Total A + B + C + D			**$ 27,162**	**$ 27,766**	**$ (604)**	**-2.2%**			**$ (27.19)**	
	E.) Other Holdings: Warrants + Debentures Etc										
$C	ORLA	Convertible Bonds		$ 437	$ 366	$ 71			27.2	$ 22.37	$ 18.46
$C	ORLA	Warrants		$ 288	$ 241	$ 47			17.9	$ 22.37	$ 18.46
$US	KW	Kennedy Wilson Warrants		$ 300	$ 300	$ -			13	$ 23.00	$ 23.00
$US	KW	Kennedy Wilson Warrants		$ 200	$ 200	$ -			12.3	$ 16.33	$ 16.33
$US	HFPC-U.TO	Helios Fairfax Partners		$ 100	$ 100	$ -	0.0%		3	$ 4.90	$ 4.90
GBP	DUKE.LON	Duke Royalty Ltd warrants		$ -	$ -	$ -			41.6	$ 0.45	$ 0.45
	Total E: Warrants + Debentures			**$ 1,324**	**$ 1,207**	**$ 118**				**$ 5.31**	
	Total A + B + C + D + E			**$ 28,487**	**$ 28,972**	**$ (486)**	**-1.7%**			**$ (21.88)**	

This document is not intended to be financial advice. Its purpose is to educate and entertain. Amounts are in US$.

Size Rankings: Top 30 (December 2025)

January 6, 2026

This analysis ranks Fairfax's 30 largest equity holdings at December 31, 2025.

Key Takeaways

1.) A Highly Concentrated Portfolio

- Top 3 holdings = 38%
- Top 10 holdings = 57%

This is intentional. Concentration reflects conviction, not carelessness.

2.) Comfortably Contrarian

At first glance, many holdings look… unconventional:

- A Greek bank?
- Total return swaps on its own shares?
- Heavy exposure to India and Greece?
- Resource producers?

Classic Fairfax.
Being different is in their DNA.

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3) Structural Shift Toward Private & Associate Holdings

A slow evolution:

- 15 of top 20 holdings are now private or associate investments (where Fairfax has control or exerts significant influence)

Over the past 7–8 years, Fairfax has steadily allocated more capital to private and associate investments.

Implications:

Lower volatility

- Less mark-to-market exposure → smoother reported results.

Growing Gap Between Accounting and Economic Results

At Sept-30-2025:

- Excess of fair value over carrying value = $2.5B
- $108 per diluted share (pre-tax)

This value creation is real–but not (yet) captured in accounting results (EPS, BV and ROE).

Investors need to keep this in mind in their analysis of the company.

Conclusion: The Shift to Quality

When you look at Fairfax's largest equity holdings today, they all have a number of things in common:

- Very well managed
- Solid balance sheets
- Growing earnings
- Strong fundamentals
- Solid long-term prospects

In short, Fairfax's equity holdings (as a group) are high quality. (That was not the case 8 years ago.) This bodes well for future returns the company will be able to deliver.

This "shift to quality" aspect is not well understood. This is partly because the individual holdings are not followed.

The high quality of the total portfolio becomes even more apparent when we examine performance.

	Fairfax Financial - Equity Holdings Ranked by Market Value									
	Dec 31, 2025 (US$ million)		Market			Ownership		Carrying	Excess of MV	
Rank	Ticker	Holding	Value	Weight		%	Shares	Value	over CV	Type
1	EUROB.AT	Eurobank	$ 4,740	17.8%		32.3%	1,178	$ 2,538	$ 2,201	A
2	FFH.TO	FFH Total Return Swaps	$ 3,368	12.6%	Top 3		1.760			M
3	Private	Poseidon	$ 1,958	7.3%	38%	43.4%	132	$ 1,958	$ -	A
4	OLA.TO	Orla Mining (1)	$ 1,034	3.9%		17.6%	31.8			M
5	FIH-U.TO	Fairfax India	$ 996	3.7%		42.7%	57.6	$ 679	$ 317	C
6	Private	BDT Capital Partners	$ 729	2.7%						M
7	Private	Recipe (2)	$ 669	2.5%		84%	49.4	$ 669	$ -	C
8	MYTIL.AT	Metlen Energy & Metals	$ 614	2.3%		8.3%	11.9			M
9	Private	Waterous Energy Fund III	$ 592	2.2%	Top 10			$ 592	$ -	A
10	Private	ShawKwei & Partners	$ 542	2.0%	57%					M
11	Private	Sleep Country	$ 541	2.0%		100%		$ 541	$ -	C
12	THOMASC	Thomas Cook India	$ 496	1.9%		64.6%	300	$ 220	$ 276	C
13	Private	Grivalia Hospitality	$ 470	1.8%		85.2%	339	$ 470	$ -	C
14	EGS60121	Com Int Bank - Egypt	$ 465	1.7%		7%	216			M
15	FOM.V	Foran Mining	$ 448	1.7%		22.6%	122			M
16	Private	EXCO Resources	$ 439	1.6%		49.3%	22.9	$ 439	$ -	A
17	Private	Peak Achiev. (Bauer)	$ 426	1.6%		100%		$ 426	$ -	C
18	JHK.N0000	John Keells Hold PLC	$ 315	1.2%		24.3%	4,512	$ 199	$ 116	A
19	Private	Meadow Foods	$ 297	1.1%	Top 20	93%		$ 297	$ -	C
20	DXT.TO	Dexterra	$ 266	1.0%	73%	49.3%	31.4	$ 97	$ 169	C
21	OXY	Occidental Petroleum	$ 249	0.9%		0.6%	6.05			M
22	CVS	CVS	$ 215	0.8%			2.71			M
23	ALS.TO	Altius Minerals	$ 199	0.7%		14.4%	6.7			M
24	CLF	Cleveland-Cliffs	$ 198	0.7%			14.9			M
25	UA	Under Armour	$ 183	0.7%			38.2			M
26	Private	Kennedy Wilson Partnersh	$ 172	0.6%				$ 172	$ -	A
27	BB	BlackBerry	$ 134	0.5%		8%	35.4			M
28	KW	Kennedy Wilson	$ 129	0.5%		10%	13.3			M
29	KHC	Kraft Heinz	$ 124	0.5%	Top 30		5.1			M
30	QUESS.BO	Quess	$ 117	0.4%	79%	34.8%	51.2	$ 198	$ (81)	A
		Remainder	$5,570			Excess of MV over CV			$2,999	
		Total Equity Holdings	**$26,696**							
	Private	Private holdings: market value at Dec 31, 2024. M = Mark to market; A = Assoc.; C = Consolid.								
		All carrying values are at Dec 31, 2024 (consolidated) and Sept 30, 2025 (associates)								
		(1) Orla - includes convertible bonds / warrants								
		(2) Fairfax now owns 100% of Recipe								

Measuring Performance

Why This Matters

Is equity investing important to Fairfax's business model?

Unambiguously yes.

But measuring performance is hard:

- Size: Portfolio is big ($26.7B) with a large number of holdings
- Contains both public & private holdings, with limted disclosure on the latter
- There are new purchases (new holdings) and sales (complete exits) during the year
- There are partial purchases and sales during the year
- Dividends need to be included (known for public, less so for private)
- Currency impacts for lage number of international holdings need to be included
- How should derivative positions be included (FFH-TRS)?

So what do we do?

We break the problem into smaller pieces.

We focus on the portion of the portfolio that is easiest to analyze:

Publicly traded equities

We will measure performance over two time-frames:

- 1-year: How did the 10 largest public holdings do in 2025?
- 5-year: What were the 10 most impactful public holdings from 2021 to 2025?

This provides a fact-based view of a meaningful slice of Fairfax's total equity book.

1-Year Snapshot: How Did the 10 Largest Public Holdings do in 2025?

Top 10 Public Holdings

- Market value at 2024 YE: $9.0B
- ~39% of total equity portfolio at 2024 YE–a large enough slice of the total equity portfolio to be highly informative.

2025 results (total shareholder return):

- Market value at 2025 YE: $13.0B
- $4.05B gain (pre-tax)
- 47% return
- ~$184 per diluted share

No, that is not a typo. And yes, that is exceptional performance.

For context:

- Fairfax's common shareholders' equity at 2024 YE = ~$23B
- Generating $4.05B gain from just 10 stocks is economically material.

Key Observations

- Top 10 holdings grew from ~39% of the portfolio to ~49% at 2025 YE
- Top 3 holdings generated ~$3.9B of gains
- This is not cherry-picked data: we did not exclude weaker performers
- Performance was broad-based: 7 of the 10 holdings were up 30% or more
- The group (as a whole) is not expensive: the strong performance is not due to 'euphoria'
- Large portion of gain is not yet captured in accounting results (EPS, BV, ROE)

Importantly, in aggregate, these holdings are well-managed businesses with solid prospects and sensible valuations.

You are probably wondering if this is just a one-year wonder. It wasn't (see next post).

Key Assumptions

This is intentionally a high-level analysis. Several simplifying assumptions were made:

- Eurobank: ignored the sale of 80 million shares in January
- FFH-TRS: used notional value (before carrying costs)
- Metlen and John Keells: positions were increased during the year; higher share counts assumed effective January 1
- Dividends: included only for Eurobank

Fairfax Top 10 Publicly Traded Equity Holdings + FFH-TRS					
1-Year Performance Estimate		2025	2024	Change in MV	
		Dec 31	Dec 31	$ (M)	%
1	Eurobank	$4,739	$2,719	$2,020	74%
	Eurobank Dividends			$207	
2	FFH-Total Return Swap	$3,358	$2,448	$910	37%
3	Orla Mining	$1,034	$483	$551	114%
	Orla Mining Position Sold	$316	$139	$178	128%
4	Fairfax India	$996	$922	$74	8%
5	Metlen	$612	$413	$199	48%
6	Thomas Cook India	$497	$689	-$192	-28%
7	Commercial Indust. Bank	$466	$333	$133	40%
8	Foran Mining	$448	$334	$114	34%
9	John Keells	$312	$347	-$35	-10%
10	Dexterra	$266	$171	$96	56%
	Total Shareholder Return	**$13,045**	**$8,997**	**$4,255**	**47%**
	Per Fairfax Diluted Share			**$184**	

The Math

		2025				2024			
	Shares	2025	Exchange		MV	2024	Exchange		MV
	M	29-Dec	Rate	US$	US$	Dec 31	Rate	US$	US$
Eurobank	1,178	€ 3.43	1.1746	$4.02	$4,739	€ 2.23	1.0351	$2.31	$2,719
Eurobank Dividends									
FFH-Total Return Swap	1.76	$1,908	1.00	$1,908	$3,358	$1,391	1.00	$1,391	$2,448
Orla Mining	76.9	$18.46	0.7285	$13.45	$1,034			$6.28	$483
Orla Mining Position Sold	25.0	$17.64	0.717	$12.65	$316	$7.96	0.6965	$5.54	$139
Fairfax India	57.6	$17.29	1.00	$17.29	$996	$16.01	1.00	$16.01	$922
Metlen	11.9	€ 43.80	1.1746	$51.45	$612	€ 33.52	1.0351	$34.70	$413
Thomas Cook India	300	₹ 149.0	0.0111	$1.65	$497	₹ 196.3	0.0117	$2.29	$689
Commercial Indust. Bank	216	$103.00	0.0210	$2.16	$466	$78.50	0.0196	$1.54	$333
Foran Mining	121.9	$5.04	0.7285	$3.67	$448	$3.93	0.6965	$2.74	$334
John Keells	4,512	$21.60	0.0032	$0.07	$312	$22.60	0.0034	$0.08	$347
Dexterra	31.4	$11.64	0.7285	$8.48	$266	$7.80	0.6965	$5.43	$171

5-Year Snapshot: What Were the 10 Most Impactful Public Holdings from 2021 to 2025?

January 6, 2026

This analysis is a little different. Fairfax has had many big winners in its stock portfolio over the past 5 years. But how big were they indvidually? And collectively? We do the math in this post. And then we explore the learnings.

Methadology:

- Public equities
- Total return = change in MV + dividends
- 5-year period: December 31, 2020 to December 31, 2025

Includes positions that were sold. And others that were initiated.

Again, we are simply looking for the public holdings that delivered the biggest total return to Fairfax from December 31, 2020 to December 31, 2025.

Results:

10 Holdings delivered:

- $10.1B total gain (pre-tax)
- 242% total return
- ~30.6% CAGR – weighted average (~4.65 years)

Yes, that is an extraordinary result.

For context:

- Fairfax's common shareholders' equity at 2020 YE = $12.5B
- Ten public equities alone generated $10.1B in total gains

And this is only one part of what has been happening under the hood at Fairfax. It helps explain how the company has been above to deliver such exceptional results over the past 5 years.

What Drove Performance?

1. Sell High

Cyclical businesses were exited at peak valuations:

- Resolute Forest Products – sold near the top of the lumber cycle in 2022

- Stelco – exited during the steel consolidation mania in late 2024

Well-timed asset sales.

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2. Buy Low

New positions were initiated at low valuations:

- Orla Mining (2022–2024) – gold producer
- Foran Mining (2021–2025) – copper start-up

Capital was reinvested wisely. Contrarian purchases. Well timed.

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3. Water the Flowers

Increased ownership of current holdings:

- Fairfax India (2022)
- Thomas Cook India (2022)
- Metlen (2022 and 2025)

Incremental capital went to ideas that were working.

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4. Pull the Weeds

Legacy investments (2015–2017 vintages) were cleaned up:

- Resolute Forest Products (formely Abitibi) sale

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5. Patience With Long-Term Compounders

Fairfax stayed the course with:

- Eurobank
- FFH-TRS
- CIB

Let winners run.

Active Management Done Right

Over the past 5 years, Fairfax has been very busy with its total equity portfolio - watering its flowers and pulling its weeds. It has also been very opportunistic, exploiting volatility - buying low and selling high. And has been very patient with its winners.

Fairfax has been quietly putting on a capital allocation clinic - on how to do active management well. With the outstanding performance of the equity portfolio being just one example.

Built over the past 40 years, Fairfax has skill sets (and relationships) that appear to be the perfect match for the current economic and macro environment. For the past 5 years Fairfax has been feasting. And they are licking their chops right now… patiently waiting for Mr. Market to serve up more wonderful investment opportunities that fall into their circle of competence.

Fairfax - Publicly Traded Equities - Estimating 5-YR Total Shareholder Return (TSR) - Most Impactful Holdings							
For 5-Year Period 2021 to 2025		Market Value		Change MV + Div			
		2025 (1)	2020 (2)	Total Return		Time-	
Updated: Dec 31, 2025		Dec 23	Dec 31	$ (M)	%	frame	Comments
1	Eurobank	$4,955	$891	$4,396	493%	5-YR	
2	FFH-TRS	$3,642	$732	$2,910	397%	5-YR	Notional as MV too conservative
3	Orla Mining	$1,355	$511	$845	165%	~2-YR	Initiated 2022; added 2024
4	Fairfax India	$996	$566	$540	95%	5-YR	Added 2022
5	Stelco	$561	$232	$505	218%	~4-YR	Sold Nov 2024
6	Resolute Forest Products	$626	$200	$426	213%	~2.5-YR	Sold July 2022
7	Metlen	$614	$283	$387	137%	~3-YR	Added 2022 & 2025
8	Thomas Cook India	$559	$220	$339	154%	5-YR	
9	Foran Mining	$448	$233	$215	92%	2.5-YR	Initiated 2021; added 4 x
10	Commercial Industrial Bank	$466	$289	$177	61%	5-YR	
	Top 10 - Total Return	**$14,222**	**$4,157**	**$10,065**	**242%**	**4.65-YR**	Weighted average
		End	Start	TSR	**30.6%**	**CAGR**	
	(1) Market value at Dec 23, 2025 or when position was sold.						
	(2) Market value at Dec 31, 2020, or when position was purchased.						

The Math: Details of What Was Included for Each Equity Holding

Fairfax - Publicly Traded Equities - Estimating 5-YR Total Shareholder Return (TSR) - Most Impactful Holdings							
For 5-Year Period 2021 to 2025		2025	2020	Change		Shares	
		Dec 31	Dec 31	$ (M)	%	M	
1	Eurobank - Current	$4,739	$829	$3,910	472%	1,178	
	Dividends (2024 + 2025)			$333			
	Share sale (Jan 2025)	$215	$63	$153	244%	89	Sale required by regulators
	Total Eurobank	**$4,955**	**$891**	**$4,396**	**493%**		
2	FFH-TRS - Current	$3,358	$656	$2,702	412%	1.76	Est late 2020 & early 2021
	Position sale (Q4 2024)	$284	$76	$208	273%	0.204	Q4 - 2024
	Total FFH-TRS	**$3,642**	**$732**	**$2,910**	**397%**		
3	Orla Mining - Current	$428	$122	$306	251%	31.8	Bought Q3-2022 to Q3-2024
	Conv Debentures - Current	$366	$150	$216	144%	27.2	Nov 2024
	Orla Warrants - Current	$241	$143	$97	68%	17.9	Nov 2024
	Share Sale (Dec 2025)	$321	$96	$225	235%	25.0	Dec 2025
	Total Orla	**$1,355**	**$511**	**$845**	**165%**		
4	Fairfax India	$903	$501	$401	80%	52.2	2020 share count = 51.6m
	Add to position (Feb 2022)	$93	$65	$29	44%	5.4	Feb 2022
	Performance fee			$110			Paid Q1 2024
	Total Fairfax India	**$996**	**$566**	**$540**	**95%**		
5	Stelco	$561	$232	$329	142%	13.0	4-year holding period
	Dividends (regular + special)			$122			
	CLF shares			$55			
	Total Stelco (sold Nov 2024)	**$561**	**$232**	**$505**	**218%**		Sold Nov 2024
6	**Resolute Forest Products**	**$626**	**$200**	**$426**	**213%**	**30.5**	Sold July 2022
7	Metlen	$205	$62	$143	230%	4.0	
	Add to position (Dec 2022)	$268	$107	$161	151%	5.2	Dec 2022; 2 transactions
	Add to position (Mar 2025)	$141	$114	$28	24%	2.8	Mar 2025
	Dividends & Interest			$55			
	Total Metlen	**$614**	**$283**	**$387**	**137%**		
8	Thomas Cook India	$411	$160	$250	156%	248	
	Shares added & held (2021)	$86	$34	$52	155%	52	2021; to help get through Covid
	Shares added and sold (2023	$62	$26	$36	140%	40	Sold Dec 2023
	Total Thomas Cook India	**559**	**220**	**$339**	**154%**		
9	Foran Mining	$204	$79	$125	158%	55.6	
	Add to position	$243	$154	$90	58%	66.3	
	Total Foran	**$448**	**$233**	**$215**	**92%**		
10	**Commercial Industrial Bank**	**$466**	**$289**	**$177**	**61%**	**216**	

Equities - The Big Three Holdings

- **Eurobank**
- **Fairfax - Total Return Swaps**
- **Poseidon/Atlas/Seaspan**

As of December 31, 2025, Fairfax's total equity portfolio stood at approximately $26.7 billion.

While Fairfax holds dozens of equity positions, the portfolio is highly concentrated at the top. The three largest holdings—Eurobank, Fairfax total return swaps, and Poseidon—carry a combined market value of approximately $10.1 billion, representing 38% of total equity holdings.

Given this concentration, the performance of these three investments will be the primary driver of overall equity returns going forward. Their importance cannot be overstated.

Accordingly, we will begin our review of Fairfax's equity portfolio with an in-depth analysis of each:

1. **Eurobank**
   One of the largest banking groups in Southeast Europe, with core operations in Greece, Cyprus, and Bulgaria. Eurobank has undergone a significant transformation over the past decade and now represents Fairfax's largest public equity position.

2. **Fairfax Total Return Swaps**
   A derivative position that provides Fairfax with economic exposure to approximately 1.76 million Fairfax shares – effectively represents a leveraged investment in its own stock.

3. **Poseidon (Atlas / Seaspan)**
   The largest independent owner and operator of containerships globally, providing exposure to global trade and long-term charter contracts. This investment represents Fairfax's most significant private equity holding.

Fairfax: Top 3 Equity Holdings	Market Value	
December 31, 2025	$ B	Split
Eurobank	$4.7	18%
Fairfax - Total Return Swaps	$3.4	13%
Poseidon/Atlas/Seaspan	$2.0	7%
Total Top 3 Holdings	**$10.1**	**38%**
Total All Equity Holdings	**$26.7**	

Eurobank – EUROB.AT – Fairfax's 'Greek Freak'

February 26, 2026

Giannis Antetokounmpo is a global NBA superstar and two-time MVP (2019, 2020). Born in Greece, he is affectionately known as "the Greek Freak."

Fairfax has several star performers in its equity portfolio. But one holding stands above all others: Eurobank

Eurobank is one of the largest banking groups in Southeast Europe, with core operations in Greece, Cyprus, and Bulgaria. Over the past five years, it has been Fairfax's best-performing equity investment by a wide margin. It is now Fairfax's largest equity holding and has been its "MVP" multiple times.

Headquartered in Greece, Eurobank has earned its nickname: Fairfax's Greek Freak.

Fairfax's Investment Snapshot

As of February 26, 2026:

- Market value of Fairfax's stake: ~$5.5 billion
- Portfolio weight: ~19.4% of Fairfax's $28 billion equity portfolio
- Portfolio rank: Eurobank is – by far – Fairfax's largest equity holding

Fairfax currently owns approximately 32.6% of the company.

A Transformational Investment

Fairfax's investment in Eurobank began in December 2014—at the depth of the Greek depression. The early years were very painful. But patience has been spectacularly rewarded.

Total Return Over Last 5.2 Years

Eurobank has delivered a total return of approximately $5.0 billion over the past 5.2 years. This return likely makes it Fairfax's best equity investment ever (measured by total return).

Components of total return:

1. Increase in market value: $4.56B

2. Dividends received: $333M ($126M in 2024 + $207M in 2025)

3. Proceeds from mandatory share sale (Jan 2025): $135M

From 2014–2020, Eurobank was a poor investment.
From 2021–2025, it has been extraordinary.

	Fairfax: 5.2-Year Return of Eurobank Investment				Shares	Exch.
	Feb 26, 2026	Stock Price		MV of	Owned	Rate
	Current position	Euro	US$	Position	by FFH	
	Dec 31, 2020	€ 0.579	$0.711	$900	1,178	1.23
A	Feb 26, 2026	€ 3.920	$4.633	$5,458	1,178	1.18
	5.2-Year Gain in Market Value			$4,559	507%	
	Dividends	2024 and 2025		$333		
	5.2-Year Total Shareholder Return			$4,892	544%	
	Return on Position Sold Jan 2025 (1)			MV	Shares	
	Dec 31, 2020	€ 0.579	$0.711	$57	80	1.23
	Jan 2025	€ 2.330	$2.400	$192	80	1.03
	5.2-Year Gain on Position Sold			$135	238%	
	5.2-Yr Total Gain (Current+Sold Positions)			$5,027	559%	
B	Fairfax Carrying Value at Dec 31, 2025 (est)			$2,750		
A-B	Excess of MV over CV (2)			$2,708	= $125/share (pre-tax)	

(1) Greek regulators required Fairfax to sell position to below 33%.
(2) Eurobank is an associate holding (equity accounted). As a result, the significant increase in MV is **not** (yet) captured in Fairfax's reported results (EPS, BV or ROE).

Why the Turnaround Happened

Four factors drove Eurobank's resurgence:

1. Exceptional Management (Most Important)

- Eurobank's leadership—under CEO Fokion Karavias—has executed at an elite level over the past 8 years.
- Their most recent masterstroke: acquiring Hellenic Bank at just 4x earnings (a textbook example of disciplined, patient capital allocation).

2. Greek Economic Recovery

- Greece exited a decade-long depression.
- Two consecutive elections delivered a pro-business government (rare for Greece).
- Tourism is booming.
- Real estate is surging.
- Animal spirits have returned.

3. Higher Interest Rates

- The disastrous era of global zero-interest rates ended.
- Net interest margins expanded dramatically—supercharging bank profitability.

4. A Patient Controlling Shareholder (Fairfax)

Eurobank was given time to work through their issues. This also allowed them to think strategically and manage the business for the long-term.

Eurobank Presentation: 2025 Full-Year Results and 2026 to 2028 Strategic Plan

https://www.eurobank.gr/-/media/eurobank/omilos/enimerosi-ependuton/enimerosi-metoxon-eurobank/oikonomika-apotelesmata/2026/fy-2025/4q2025-results-presentation.pdf

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An Overview of Eurobank: Past, Present and Future.

Fokion Karavias, CEO of Eurobank Presentation April 10, 2024

- Short history of Eurobank.
- Review of 2023 results.
- Discusses goals for 2024 - 2026

YouTube video (37 minutes): https://youtu.be/zDEc0QA3d5A?si=8G7VRZSI1JCxlAUU

PowerPoint Presentation: https://www.ivey.uwo.ca/media/hznli5um/keynote-fokion-karavias.pdf

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Timeline of Fairfax's Investments in Eurobank

- Dec 2014 – Investment 1: $444M for 12.5% position.
- Nov 2015 – Investment 2: $389M for 17% position (recapitalization)
- Dec 2015 – Purchase of 80% of Eurolife from Eurobank for $360M
- May 2019 – Eurobank recapitalization/merger with Grivalia Properties - Fairfax owns 32.4%

In the 2019AR, Fairfax said their average cost for Eurobank was $0.94/share (after the merger with Grivalia).

For a historical look at Fairfax's investment in Eurobank, go to Chapter 16 and read the two posts on Greece.

Eurobank is Fairfax's minority partner in both Eurolife and Grivalia Hospitality.

Details of Fairfax's Sale of Eurobank Shares in January 2025

Fairfax sold 80 million shares of Eurobank at €2.33/share, for proceeds of €186 million (US$194 million). Greece has foreign ownership limits on its banks and this sale gets Fairfax back under the limit. After the sale, Fairfax continues to own 'around, but below 33% of Eurobank's share capital.'

"This disposal represents a mandatory technical adjustment to Fairfax's significant equity holding in Eurobank and does not reflect in any way a view on Eurobank's valuation or long-term prospects. Following the Transaction, Fairfax will retain an equity stake of around, but below 33% of Eurobank's share capital and will continue to remain a long-term, committed reference shareholder of Eurobank." *Eurobank press release – January 23, 2025*

https://www.eurobankholdings.gr/en/grafeio-tupou/etairiki-anakoinosi-23-01-2025

Comments from Prem about Eurobank from Fairfax's 2024AR.

Eurobank and its superb management team led by Fokion Karavias, had another fantastic year in 2024. Against a backdrop of declining interest rates in Europe, Eurobank grew EPS by 26% and tangible book value per share by 16% (adjusted for the 2024 dividend). Importantly, risk metrics continue to improve – non-performing loans reduced further from 3.5% to 2.9% (with increased provisions). Core Tier 1 capital remains at very healthy levels. This allowed the bank to accelerate the reduction of deferred tax credits – acquired during the Greek crisis – thus increasing the quality of its capital base.

Having started to acquire shares in the number two bank in Cyprus – Hellenic Bank – in 2021, Eurobank finalized an agreement in November to take their shareholding to over 93%. Once completed, management will have acquired the company at a valuation of 4x earnings. A terrific demonstration of patience and value investing! Not only did this give Eurobank a strong presence in Cyprus, but it is likely to see 2025 become the first year that profits from international operations exceed those in Greece.

Due to the strong underlying value creation, and despite a 39% increase in the share price in 2024, Eurobank remains attractively valued at 1x tangible book value and 6x earnings. After paying its first dividend since 2008 last year, the payout ratio will ramp up to 50% and equates to a 7%+ yield on the current share price. Interestingly, this equates to an 18% yield on Fairfax's net cost – patience and value investing at the Fairfax level! *Prem Watsa – Fairfax 2024AR*

Eurobank – Excess of FV over CV – Fairfax's Hidden Earnings Engine

January 14, 2026

One of the most misunderstood—and increasingly important—sources of value creation at Fairfax is what I call "hidden earnings."

These are not theoretical or speculative.

This is economic value that already exists—value that Fairfax has already created for shareholders.

The problem?

Accounting conventions do not allow it to be recognized—yet.

If this were immaterial, it would not matter.

But it is *not* immaterial. It is large. And it is growing rapidly.

The best example is Eurobank.

Eurobank: The Poster Child for Hidden Value

As of today:

- Market value: $5.2 billion (Jan 14, 2026)
- Carrying value: $2.7 billion (Sept 30, 2025)
- Excess of fair value over carrying value:
    - ~$2.6 billion (this is overstated a little, as CV has increased)
    - ~$112 per diluted Fairfax share

That gap widened dramatically over the past year alone:

- Increase in last 12 months: ~$1 billion

This is real economic value that has been created.
It simply does not appear in Fairfax's reported earnings or book value.

How Did This Happen?

Eurobank became an associate holding on December 19, 2019—the day Greek regulators removed restrictions on Fairfax's voting rights.

Critically:

- The share price was severely depressed at that time
- That locked in a very low carrying value for Fairfax
- Everything that followed—operational improvements, earnings growth, multiple expansion—accrued to economic value, not accounting value

In other words, the starting point was artificially low.
The value creation since then has been extraordinary.

Why Accounting Masks the Value

Because Eurobank is classified as an associate, it must be equity accounted.

That means:

Income Statement
- Fairfax reports its share of Eurobank's earnings
- Change in the share price doesn't matter: no mark-to-market gains are recorded

Balance Sheet
- Carrying value increases only by:
    - Fairfax's share of Eurobanks earnings
    - Less dividends received from Eurobank (substantial the past 2 years)
- Market price is irrelevant under current accounting

So even though Eurobank's share price has soared, Fairfax's carrying value barely moves.

This creates a growing disconnect between:

- What Fairfax owns (economic reality)
- What accounting reports (book value)

How Will This Be Resolved?

The accounting distortion disappears the moment Fairfax sells (ownership drops below 20%). At that time, the position becomes mark to market.

That would trigger:

- ~$2.6 billion pre-tax investment gain
- ~$112 per diluted Fairfax share

In one stroke.

Will Fairfax Sell?

Probably not anytime soon.

Eurobank:

- Is well managed
- Has strong fundamentals
- Has solid long-term prospects
- Remains cheap, even after a massive five-year run

Fairfax has no reason to rush. If anything, the most likely outcome is: the excess of fair value over carrying value continues to grow.

Which means:

- More hidden value
- More future "surprise" earnings
- More economic value creation not yet recognized

Why This Matters

Eurobank is the biggest (and best) example of how Fairfax's reported earnings materially understate true economic performance.

This is not aggressive accounting. This is conservative accounting.

But investors who only look at:

- GAAP earnings
- Book value
- Reported ROE

Miss a large and growing pool of value.

Hidden earnings are real. They are measurable. And eventually, they will be recognized.

The Hellenic Bank Acquisition is a Game Changer

Update: February 11, 2025

Eurobank raises stake in Hellenic Bank to 93.47 per cent, eyes full control

https://cyprus-mail.com/2025/02/11/eurobank-raises-stake-in-hellenic-bank-to-93-47-per-cent-eyes-full-control

Eurobank announced on Tuesday that it has completed the acquisition of an additional 37.5 per cent stake in Hellenic Bank, bringing its total shareholding to 93.47 per cent.

The bank has also launched a mandatory public offer to acquire the remaining shares of Hellenic Bank, aiming for full ownership.

The transaction, finalised on February 10, 2025, after obtaining the necessary regulatory approvals, entailed the acquisition of 154,832,195 shares for approximately €750 million at a price of €4.843 per share.

Introduction

Scale matters in banking. A lot. Eurobank is very well positioned in Greece and Bulgaria. In 2023, Eurobank made the decision to exit Serbia, and sell its bank (that had #8 market share). Smart.

Eurobank also had a presence in Cyprus (the # 3 bank). Eurobank decided Cyprus was a country it wanted to grow in. So, in 2021 it acquired a small stake in Hellenic Bank, the #2 bank in Cyprus. Over 2022 and 2023, Eurobank increased its ownership in Hellenic Bank to 55%. And in the last two weeks, to 94%. The takeover of Hellenic Bank will be completed in Q1 2025.

This is a game changer for Eurobank. Eurobank Cyprus and Hellenic Bank make Eurobank a powerhouse in banking in Cyprus. In 2024, Hellenic Bank also expanded into insurance with the acquisition of CNP Cyprus. But we are getting ahead of ourselves.

Let's review the Hellenic Bank acquisition.

Hellenic Bank

Eurobank obtained full control of Eurobank on November 25, 2024 with the takeout of the 2 remaining large shareholders.

Eurobank acquires full control of Hellenic Bank

https://knews.kathimerini.com.cy/en/business/eurobank-acquires-full-control-of-hellenic-bank

Price paid matters. Eurobank will pay a total of about $1.36 billion to acquire 100% of Hellenic Bank. It has been a 4-year journey. The table below shows each of the moves made by the management team at Eurobank. Slow. Steady. Methodical.

Eurobank - History and Total Cost to Acquire Hellenic Bank

		Ownership		Shares	Amount Paid		
	Date	%	Cumulative	Million	/ Share	Total €	Seller
1	June 21, 2021	9.9%		40.8	€ 0.80	€ 32.6	Third Point HRF
2	2H 2021	2.7%	12.6%	11.2	€ 0.80	€ 32.6	Third Point HRF
3	Nov 20, 2022	13.4%	26.0%	55.3	€ 1.26	€ 70.0	Wargaming Group
4	Dec 30, 2022	3.2%	29.2%	13.2	€ 1.27	€ 16.7	Senvest Management
5	Aug 23, 2023	17.3%	46.5%	71.4	€ 2.35	€ 167.9	Poppy Sarl (PIMCO)
6	Aug 25, 2023	1.6%	48.1%	6.6	€ 2.35	€ 15.5	Senvest Management
7	Aug 31, 2023	6.8%	54.9%	28.0	€ 2.35	€ 65.9	Wargaming Group
8	Aug 31, 2023	0.4%	55.30%	1.7	€ 2.37	€ 4.0	Wargaming (Mgmt)
9	June 30, 2024	0.2%	55.48%	0.75	€ 2.56	€ 1.9	Misc
10	Nov 7, 2024		68.8%	53.0	€ 4.84	€ 256.8	Cypress Union of Bank Employ
11	Nov 24, 2024		**93.5%**	101.8	€ 4.84	€ 492.7	Logicom & Demetra
12	Q1, 2025?		**100.0%**	28.9	€ 4.84	€ 139.9	Remaining shares
	Total cost for Hellenic Bank			**412.8**	**€ 3.14**	**€ 1,296.57**	**$1,361 US**

How much is Hellenic Bank earning?

Hellenic Bank is poised to earn a total of about $772 million in 2023 and 2024 ($386 million on average). Eurobank is paying about 3.36 x estimated average 2023/2024 earnings. That is exceptional value.

Hellenic Bank - Net Earnings (m)

2023 FY		€ 365	
Sept YTD 2024	€ 284		
2024 FY Est		€ 370	
2-Year Total		**€ 735**	**$772**

What are some tailwinds to profitability of Hellenic Bank/Eurobank Cyprus?

1.) Grow the top line - Hellenic bank has a number of things it can do to grow its top line. There is a significant opportunity to grow Hellenic Bank's loan book.

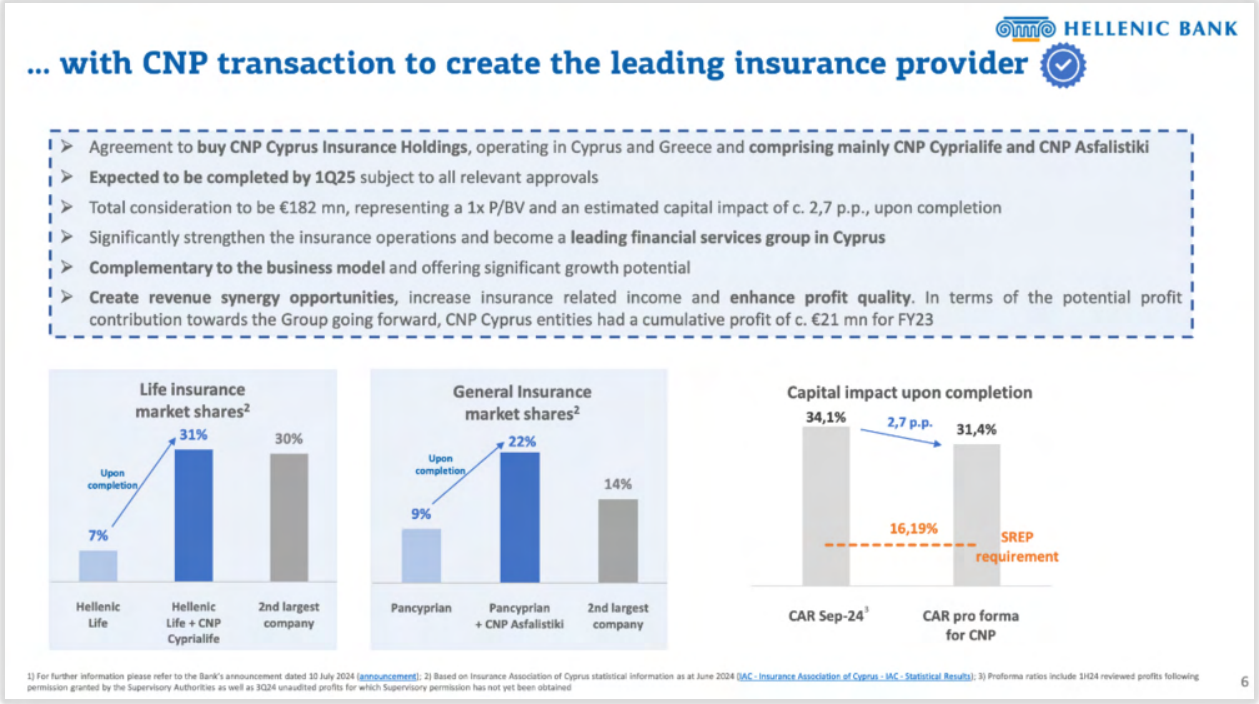
Expansion into insurance: In April 2024, Hellenic Bank announced it was making a major expansion into insurance (life and P/C) in Cyprus with the purchase of CNP Cyprus for €182 million. This deal is expected to close in Q1 2025.

Acquisition of CNP Cyprus solidifies Hellenic Bank's dominance in Cypriot insurance market

https://knews.kathimerini.com.cy/en/business/€182m-deal-marks-hellenic-s-strategic-move-into-insurance-sector

Hellenic Bank has lots of excess capital – this looks like a smart move. This move also fits very well with Eurobank/Fairfax (Fairfax owns Eurolife, one of the largest life insurance companies in Greece).

Slide from Hellenic Bank's Q3 2024 earnings presentation:



2.) Reduce expenses - merge Eurobank Cyprus and Hellenic Bank

On November 26, 2024 it was reported that Eurobank will be merging Hellenic Bank with Eurobank Cyprus. This will be a multi-year process and should lead to a stronger bank in Cyprus. Over time, it should also result in significant cost savings.

Remember, there is also a third leg to this stool - and that is Hellenic Bank's insurance acquisition. There are really three businesses to be integrated in Cyprus: Eurobank Cyprus, Hellenic Bank and CNP Cyprus.

Hellenic Bank to merge with Eurobank following €1.2 billion deal

https://cyprus-mail.com/2024/11/26/hellenic-bank-to-merge-with-eurobank-following-e1-2-billion-deal/

3.) Synergies (cost savings)

The synergies from combining the three businesses should be significant. We already mentioned cost savings. But importantly, there will also be cross-selling opportunities which should result in revenue growth.

Summary

Eurobank has made a number of significant strategic decisions in recent years. The biggest was the decision to aggressively expand in Cyprus with the purchase of Hellenic Bank. With the announcements the past couple of weeks, all of their hard work is quickly coming together.

When Eurobank reports 2024 year-end results next year, we will also get their 2025 business plan. It will be very interesting to see the integration plans for their operations in Cyprus and what the new business/profit outlook is. Cyprus will likely drive a big part of the growth (top and bottom line) for Eurobank in the coming years.

But the real lesson of Hellenic Bank is the impact that an exceptional management team can have on business results. Especially over a couple of years. And in a region like Greece (coming out of a depression).

The management team at Eurobank looks like they are the real deal. It will be interesting to see what they do in the coming years.

Hellenic Bank - Q3-2024 Earnings Presentation

https://www.hellenicbank.com/-/media/hbc/announcements/2024/november/9m/9m24_fr-presentation_final.pdf

Fairfax Total Return Swaps – A Stealth Buyback of 1.96 million Shares?

December 31, 2025

Fairfax's second-largest equity holding is its total return swap (TRS) position, which provides exposure to 1.76 million Fairfax shares.

At current prices (Dec 31, 2025):

- Market value of Fairfax's stake: ~$3.36 billion
- Portfolio weight: ~13% of Fairfax's ~$26.7 billion equity portfolio

This investment was originally made in late 2020 and early 2021, when Fairfax shares were trading at an absurdly depressed valuation. The initial exposure was 1.96 million shares, making it one of the most aggressive capital allocation decisions in the company's history.

In Q4 2024, Fairfax reduced the position by 203,800 shares, lowering exposure to 1.76 million shares. It is possible they reduced it further in Q4 2025; confirmation will come when year-end results are released in February.

From day one, management understood what they were doing. As Prem Watsa wrote in the 2020 Annual Report:

> "We think this will be a great investment for Fairfax, perhaps our best yet!" *Prem Watsa 2020AR*

Performance: An Extraordinary Result

Since inception, the FFH-TRS has generated approximately $2.9 billion in total return (before carrying costs). That is an exceptional outcome by any standard.

The return breaks down as follows:

- $2.7 billion – increase in market value of the current position
- $208 million – gains realized on the portion exited in Q4 2024

As management foreshadowed in 2020, this has indeed become one of Fairfax's best investments ever.

This single decision exemplifies the quality of capital allocation Fairfax has demonstrated over the past seven to eight years. The cumulative value creation has been enormous. This is not hyperbole — it is fact.

Yet this investment has been largely ignored by investors and analysts. Why?

Because a total return swap is a non-traditional investment for a P&C insurer. It is far more common at hedge funds. As a result, most analysts never fully incorporated it into their earnings models — one reason estimates for Fairfax have consistently been too low.

Fairfax - Estimated 5-Year Total Return From Investment in FFH-Total Return Swaps				
Dec 31, 2025	Shares	FFH Share	TRS Market	
Current position	**M**	**Price**	**Value**	**Date**
Average cost	1.760	$373	$656	Q4 '20/Q1 '21
Current value	1.760	$1,908	$3,358	Dec 31, 2025
5-Year increase in MV of current position			**$2,702**	
Estimate of gain on position closed out in Q4, 2024				**Date**
Shares closed out	0.2038	$1,393		Dec 20 , 2024
Gain per share & total $	**0.2038**	**$1,020**	**$208**	
Total 5-year increase in value 2021 to 2025 (1)			**$2,910**	
(1) Increase in value before carrying costs				

Given its importance, this position deserves deeper analysis.

Margin of Safety

Fairfax entered the TRS at an average price of $373/share.

At December 31, 2020:

- Book value: $478.33/share
- Entry valuation: 0.78x P/B

This was an enormous margin of safety. Management was buying its own business at a massive discount to intrinsic value.

Circle of Competence

Was Fairfax operating inside its circle of competence?

Of course. No one understood Fairfax's intrinsic value better than… Fairfax itself. Management knew the stock was being criminally undervalued.

In June 2020, Prem Watsa personally purchased $150 million of stock at roughly $311/share, stating:

"I have never seen Fairfax shares sell at a bigger discount to their intrinsic value… I believe that this will be an excellent long-term investment." — Fairfax News Release, June 15, 2020

This was a high-certainty investment — and therefore a low-risk one.

Position Sizing: Backing Up the Truck

What should an investor do when:

- They deeply understand an investment
- It trades at a historically cheap valuation
- Conviction is extremely high?

They should back up the truck.

Fairfax did exactly that.

They established exposure to 1.96 million shares, representing:

- 7.5% of effective shares outstanding at the time (26.2 million)
- One of the largest single positions in the equity portfolio

With this investment, Fairfax got out their elephant-gun.

How Did Fairfax Pay?

The cost to buy 1.96 million shares outright would have been approximately $731 million (at $373 per share).

But in late 2020:

- The hard market was accelerating. Fairfax needed capital to grow its P/C insurance business.
- The company had just absorbed a $529 million loss closing its final short position

They did not want to drain liquidity.

So, they got creative.

Instead of buying shares outright, Fairfax used a total return swap, achieving:

- Full economic exposure
- Minimal capital outlay
- Limited impact on balance-sheet

A Masterclass in Capital Allocation

The FFH-TRS checks every box:

- Large margin of safety
- Deep in circle of competence
- Concentrated position
- Creative structure (TRS vs. cash purchase)

This was rational, opportunistic, creative and unconventional – Fairfax pulled a brand new tool out of their capital allocation toolbox. Just like Henry Singleton used to do when he ran Teledyne.

Outlook: Still Attractive

Three powerful forces are now working in Fairfax's favor:

1. Growing earnings – underwriting and investment income
2. Multiple expansion – narrative improving
3. Falling share count – aggressive buybacks

The outlook for this investment remains very strong
Despite the massive rally, Fairfax's stock still trades at a discount to peers.

Exit Strategy: The Stealth Buyback

At the end of the day, the FFH-TRS position is an investment for Fairfax. Like all investments, they have an exit strategy.

In Q4 2024, Fairfax reduced the TRS by 203,800 shares (from 1.96 to 1.76 million shares).

But here's the twist:

Those shares were purchased and cancelled by Fairfax from the counterparty.

So, the TRS reduction was executed as a share buyback.

Details:

- Buyback cost: ~$284M (average price: ~$1,393/share)
- Total TRS gain in 2024: ~$922M

The buyback was funded entirely from a part of the gains on the TRS.

This reveals the brilliance of the structure:

- The TRS may ultimately function as a self-funded buyback program for ~1.9 million shares.

That is exceptional capital allocation.

Buybacks + TRS = Magic for an Undervalued Stock

Fairfax has been very aggressive buying back its stock over the past 5 years. This is a tailwind for the share price.

Every $100 increase in Fairfax's share price creates:

- $175 million pre-tax gain on the TRS

This makes buybacks even more compelling.

Shareholders benefit twice:

1. Numerator – TRS boosts earnings
2. Denominator – buybacks shrink share count

Higher earnings and lower share count provides a double benefit to EPS.

An Underappreciated Investment with Analysts

When it was announced, analysts struggled to understand the FFH-TRS investment.

Prem's answer to question from Mark Dwelle (RBC) on the Q4, 2020 earnings call:

> **Mark Dwelle**: "My second question relates to executing the total return swap with respect to Fairfax shares. I guess, I was just curious why you pursued that structure, rather than just buying back the stock, if you felt like that was the good opportunity? I mean, is this a capital constraint that you couldn't really buy back that much?"
>
> **Prem Watsa**: "…yes, we have to be very careful in terms of how much we can buy back. When we looked at Fairfax as a stock and looked at everything else that we could buy... we paid US$344 per shares, our book value is $478. I mean, if you (do) the math, just on (a) book value basis, we'd have about $200 million gain. And Fairfax stock price for book value is worth another 200 million. We just think it's a terrific investment and our total return swap structure was a very good way for us to do it. And so we did it."

Why buy the TRS-FFH versus simply buying back stock?

Again, from the Q4 2021 conference call.

> **Mark Dwelle**: "I don't disagree with you that it was a good strike price, I guess it was really -- the form of the transaction rather than just actually buying the shares, using a derivative instead is just --

it's a little bit unusual. I haven't usually seen that with most of the companies that I've followed. So that was really my main question."

Prem Watsa: "Yes, so, Mark, our point is just that we wanted to… have more than $1 billion in cash … we just wanted to be financially sound, and in all ways, as opposed to use that cash at this point in time."

Comments from Prem about the total return swap position from the 2020AR. (Note: in early 2021, Fairfax increased the size of the FFH-TRS position from 1.4 to 1.96 million shares).

"Throughout much of last year following the pandemic-induced market plunge, I made public statements to the effect that our belief was that Fairfax shares were trading in the market at a ridiculously cheap price. In the summer I backed that up by personally purchasing close to $150 million of shares. Additionally, following our value investing philosophy, since the latter part of 2020 Fairfax has purchased total return swaps with respect to 1.4 million subordinate voting shares of Fairfax with a total market value at the time of those agreements of $484.9 million ($344.45 per share). We think this will be a great investment for Fairfax, perhaps our best yet!" *Fairfax 2020AR*

Total Return Swap: Some Additional Details (from Corporate Finance Institute)

The other major benefit of a total return swap is that it enables the TRS receiver to make a leveraged investment, thus making maximum use of its investment capital. Unlike in a repurchase agreement where there is a transfer of asset ownership, there is no ownership transfer in a TRS contract.

This means that the total return receiver does not have to lay out substantial capital to purchase the asset. Instead, a TRS allows the receiver to benefit from the underlying asset without actually owning it, making it the most preferred form of financing for hedge funds and Special Purpose Vehicles.

There are several types of risk that parties in a TRS contract are subjected to. One of these is counterparty risk.

Both parties in a TRS contract are affected by interest rate risk. The payments made by the total return receiver are equal to LIBOR +/- an agreed-upon spread. An increase in LIBOR during the agreement increases payments due to the payer, while a decrease in LIBOR decreases the payments to the payer. Interest rate risk is higher on the receiver's side, and they may hedge the risk through interest rate derivatives such as futures.

https://corporatefinanceinstitute.com/resources/derivatives/total-return-swap-trs/

Poseidon - Atlas - Seaspan – Partnering with David Sokol and the Washington Family

2025

Fairfax's third-largest equity holding is Poseidon (formerly known as Atlas/Seaspan).

Fairfax's Investment Snapshot

As of December 31, 2025:

- Carrying value of Fairfax's stake: ~$1.96 billion (September 30, 2025)
- Portfolio weight: ~7.3% of Fairfax's ~$26.7 billion equity portfolio
- Portfolio rank: Poseidon is Fairfax's 3rd largest equity holding

Fairfax currently owns approximately 43% of the company.

After experiencing a set-back in 2023, net earnings at Poseidon/Atlas rebounded strongly in 2024:

- 2022 = $622 million
- 2023 = $403 million (drop was caused by spiking interest rates)
- 2024 = $672 million

Of note, Poseidon sold APR for $375 million, with the deal closing December 31, 2024. This is great news as APR is a low-quality business. Beginning in 2025, Poseidon will have one reporting business segment – Seaspan – its containership business. It is nice to see the company simplifying its business (and focussing on its core containership business).

In his 2024 annual shareholder letter, Prem forecast earnings for Poseidon to be about $600 million in 2025 (not including APR). Fairfax owns 43% of Poseidon, which would put Fairfax's share of earnings at about $258 million. At December, 31, 2024, Fairfax had a carrying value for Poseidon of $1.9 billion. Poseidon is being carried on Fairfax's books at about 7.3x 2025E earnings. This is a very attractive (low) valuation.

Comments from Prem about Poseidon from Fairfax's 2024AR.

"Under the outstanding leadership of David Sokol and Bing Chen, Poseidon remains on track to solidify its position as the world's leading containership owner operator. Poseidon continues strong execution of its newbuild program by delivering an additional 35 vessels – 374,050 TEU total – in 2024, with all vessels delivered at or ahead of schedule. In 2024, Poseidon also closed the sale of its other business, APR Energy. Upon completion of Poseidon's containership newbuild program and the sale of APR Energy, Poseidon is expected to deliver more than $2.5 billion of revenue and $1.9

billion of adjusted EBITDA. Poseidon is also expected to generate net earnings in excess of $600 million in 2024 and 2025. We carry our 43% ownership in Poseidon at $1.9 billion – approximately 7x 2024 earnings." *Prem Watsa – Fairfax 2024AR*

Update June 19, 2024

The spike in interest rates in 2022/23 appeared to catch Atlas/Poseidon flat footed. Reported results have been ok; just not as good as what was telegraphed by management two years ago.

After a hiatus in 2023, earnings at Poseidon look poised to grow again in the coming years. At Fairfax's AGM in April 2024, David Sokol said three things that got my attention.

1.) In 2020 and 2021, Atlas executed an aggressive growth plan to build 70 new container ships. The final 2 (of the 70) will be delivered in January of 2025. Altas obtained them at very attractive prices (about 30% below the current cost to build).

"One of the really remarkable things that we didn't see coming is that those same ships today, because we locked in fixed pricing in 2020 and 2021, will be 30% more expensive. So the ships we're delivering this year, if you wanted to duplicate them, a, it would take you 2 years, **but also you'd pay a 30% premium. So we have a built-in margin that is purely good fortune from our perspective**, but nonetheless, you take it when it comes along." *David Sokol*

2.) Sokol then provided an update on the economics of the business:

"**Now that's going to show some pretty dramatic improvement in economics this year. We'll probably see revenues up around 25%, EBITDA north of 35% and net income above 20% growth from '23 through '24**, but that's just a function of these ships coming on." *David Sokol*

3.) He then finished with the following comment:

And Prem, I'm pleased to say -- on the same basis that we went private, your investment should go up about 50% this year just based on the increased cash flow of the business, so it's been a pleasure. And… hopefully, the market will keep providing us opportunity in the future.

David Sokol – Fairfax Annual Meeting April 2024

Sokol's comments at the AGM align well with what Prem had to say in his 2023 Shareholder Letter:

"Poseidon is expected to make net earnings in excess of $400 million in 2024 and $500 million in 2025. We carry our 43% ownership in Poseidon at $1.7 billion – 10x 2024 expected earnings or 8x 2025 expected earnings." *Prem Watsa – Fairfax 2023AR*

June 28, 2023

Poseidon is the entity formed by Fairfax, the Washington Family, David Sokol and Ocean Network Express (ONE) that took Atlas private in March of 2023. To keep things simple, for now I am going to refer to Atlas as Atlas (and not Poseidon).

Atlas is one of Fairfax's largest equity holdings with a fair value of $2.04 billion and carrying value of $1.64 billion at March 31, 2023. At fair value, it is about 12.7% of Fairfax's total equity portfolio of $15.7 billion. It is a significant holding.

Who is Atlas?

Atlas is a global asset management company. Their business is deploying capital to create long term value for owners. Today, Atlas owns two businesses:

- Seaspan (91% of EBITDA): the largest independent owner and operator of shipping containers in the world
- APR Energy (9% of EBITDA): the largest owner and operator of gas turbines in the world.

Management Presentation - Feb 2023

https://filecache.investorroom.com/mr5ircnw_seaspan/1280/download/Atlas Investor Presentation February 2023 - v02.pdf

A Brief History: Seaspan to Atlas to Poseidon

1.) Seaspan (2005)

Seaspan was founded by the Washington Family in 1999. In 2005, Seaspan Corporation was taken public and listed on the NYSE. Today, Seaspan is the largest independent owner and operator of containerships in the world with 13% market share. As of March 31, 2023, Seaspan's operating fleet consists of more than 140 containerships with a total capacity of over 1.1M TEU. With 67 vessels under construction, the total capacity increases to over 1.95M TEU on a fully delivered basis.

2.) APR Energy

From 2015-2017, Fairfax invested about $460 million to purchase 67.8% interest in APR. In November of 2019, Fairfax sold APR to Atlas for $254 million in Atlas shares (22.9 million x

$11.10/share). Fairfax unloaded a problem child, so it was a great deal for Fairfax. Sokol got ownership of a second company - this time an energy company.

Atlas is still in the process of turning APR around. New CEO. New strategy: exit Argentina and shift to long term contracts.

3.) Atlas Corp (Nov 2019)

Concurrent with the APR purchase, Atlas was created. It is now 'an asset management company' and its focus is 'deploying capital to create long term value for owners'. It was interesting listening on the conference call when this change was announced and the management team trying and explain what they were doing to a bunch of containership analysts.

The analyst community was never able to fully grasp the vision of what Sokol and team were trying to accomplish. It was the case initially with Seaspan when they tried to make the company a less cyclical business (more akin to a leasing company). The pivot to an asset management company (with the purchase of APR) was even more baffling for analysts.

4.) Poseidon (March 2023)

Taking Atlas private now allows Sokol and the management team the ability to take Poseidon in whatever direction they want. Trying to appease a small group of minority shareholders (and analysts) is like herding cats. Sokol is a bright guy. He is ambitious. And he has a lot to prove. This probably makes good sense for everyone. Especially given the current weakness (putting it politely) in the containership market.

The funding for the buyout of minority shareholders was mostly provided by ONE, Seaspan's largest customer. Fairfax did not provide any additional funds.

Who owns Atlas?

- Fairfax (45%)
- Washington Family (22% plus $175 million more?)
- Ocean Network Express ONE (30% ish – had $1.4 billion max spend)
- Management: Sokol, Chen etc (%? plus $30 million more?)

Poseidon has what looks to be a pretty rock-solid ownership group: Understand the industry. Deep pocketed investors. Patient. Supportive. Long term focus. Sokol and the management team must be SO HAPPY that the take private transaction is completed.

Washington Family founded Seaspan in 1999. Seaspan was listed on NYSE in 2005. They have been a large shareholder of Seaspan ever since.

https://www.washingtoncompanies.com/about-us/#our-history

Ocean Network Express (ONE) was established in 2017 with the merger of 3 Japanese container shippers ('K' Line, MOL and NYK). With a fleet size of 1,505,181 TEU, ONE is the 7th largest containershipper in the world. It is part of 'THE Alliance'. It is Seaspan's largest customer (at 24%).

https://www.one-line.com/en/standard-page/ocean-network-express

Why did Fairfax decide to invest in Seaspan/Atlas?

1. A bet on the jockey: David Sokol, and his impressive long term track record.
2. An opportunity to partner with the Washington Family.
3. A solid value investment: Seaspan was trading at a very cheap valuation.

Comments from Prem about the Seaspan purchase from the 2017AR.

"Late in 2017, we had the good fortune to be a partner with David Sokol and Dennis Washington, two outstanding businessmen with great track records, by investing in Seaspan. Dennis is the largest shareholder of Seaspan while David became its Executive Chairman in July 2017. David has one of the most outstanding records I have come across, as he built Mid American Energy from revenue of $116 million in 1991 to revenue of $11 billion in 2010, while net income increased from $27 million to $1.2 billion over the same period, representing a compound growth rate of 22.4% per year." *Prem Watsa – Fairfax 2017AR*

How much has Fairfax invested in Atlas?

Common shares:

- Fairfax owns 130.8 million shares of Atlas = 45.4% of shares outstanding. On Feb 1, 2023, Atlas had 287.8 million shares outstanding. Below is a summary of how Fairfax accumulated its shares, beginning in July 2018.

Fairfax's path to owning 130.8 million shares of Atlas

date granted	date exercised		shares	cost per share	cost total $	Comment
Feb-18	Jul-18	Warrants	38.46	$6.50	$250	
Jul-18	Mar-22	Warrants	25.0	$8.05	$201	Incentive to exercise warrants early
Jan-19	Jan-19	Warrants	38.46	$6.50	$250	
Nov-19	Nov-19	APR	22.9	$11.10	$254	
Apr-21	Jan-23	Warrants	5.0	$13.00	$65	Part of APR final?
Jun-21	Jan-23	Warrants	1.0	$13.71	$14	Incentive to exch debt for pref shares
			130.8	**$7.90**	**$1,034**	

Other investments in Atlas:

- In June 2021, Fairfax converted $600 million in secured debt to $300 million in unsecured debt (5.5%) and $300 million in preferred shares (7%) and 1 million warrants ($13.71 strike, which have since been exercised.

date	coupon		yield
Feb-18	$250	Debenture	5.50%
Jan-19	$250	Debenture	5.50%
Feb-20	$100	Debt	5.50%
Jun-21	$300	Debt	5.50%
Jun-21	$300	Preferred shares	7%

How has the equity part of the investment performed?

Common shares:

- Based on the take private price of $15.50/share, Fairfax made a fair market gain of $9.225/share or $1.2 billion or +117% on its common stock investment in Atlas since 2018.

avg cost	$7.90	per share
dividends	$1.625	per share
net cost	$6.275	per share
buyout price	$15.50	per share
fair value	$2,027	$15.50 x 130.8
gain	$9.225	117%
gain - $	$1,207	

Fairfax also has $300 million in debt that is paying $16.5 million in interest (5.5%). And they have $300 million in preferred shares that pay $21 million in dividends (7%).

Future prospects for Atlas/Poseidon?

Recent developments:

- Seaspan is in the middle of a dramatic increase in capacity. They have 67 new container ships coming in 2023 and 2024 that will increase capacity from 1.1 to 1.95 million TEU. This will make them larger than ONE (1.5 million TEU).
- At the same time:
    - weak macroeconomic background
    - rising cost of capital - spiking interest rates
    - charter rates for container ship rates have fallen dramatically.
    - the 3 ocean alliances look like they are in the process of disintegrating.

- So, it would be an understatement to say that there is a lot going on right now in Seaspan's business. They have long term charters on all new ships coming on line. And they have the financing lined up for the new builds.
- As discussed earlier, APR is still in turnaround mode.

My guess is 2023 and 2024 will be quiet years as Atlas focusses on execution at Seaspan and APR. I wonder if the headwinds (softness in the shipping container market and higher cost of capital) mute the expected earnings growth at Atlas. Probably. Having a very strong private ownership group is a real benefit given the current environment.

Conclusion

Fairfax has done exceptionally well so far with its investment in Atlas. It will be interesting to see how the next two years play out. Does the new build strategy deliver the expected growth in earnings? Do they further diversify the platform and create a third earnings stream? What does Sokol and the management team accomplish over the next 5 years?

Davis Sokol joined Seaspan in 2017. His claim to fame was as Chairman and CEO of MidAmerican Energy, a company he sold to Berkshire Hathaway in 2000. He remained at Berkshire Hathaway until 2011, when he retired.

CNBC TRANSCRIPT: David Sokol Defends His Controversial Lubrizol Stock Purchases
https://www.cnbc.com/2011/04/01/cnbc-transcript-david-sokol-defends-his-controversial-lubrizol-stock-purchases.html

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Atlas Take Private Correspondence

Sept 26, 2022: Letter from Poseidon to Atlas's board presenting final $15.50 offer and also discussing current macroeconomic environment:

https://www.businesswire.com/news/home/20220926005186/en/POSEIDON-ACQUISITION-CORP.-UNILATERALLY-INCREASES-ITS-BID-PRICE-TO-ACQUIRE-ALL-COMMON-SHARES-OF-ATLAS-CORP.-NOT-CONTROLLED-BY-ITS-MAJORITY-SHAREHOLDERS-TO-15.50-PER-SHARE-IN-CASH

LF Partners Letters to Buyout Group

Aug, 2022: Initial letter sent to buyout group
https://www.globenewswire.com/en/news-release/2022/08/15/2498181/0/en/LF-Partners-Charles-Frischer-Sends-Letter-to-Atlas-Corporation-Special-Committee.html

September 21, 2022: Follow-up letter sent to buyout group
https://www.accesswire.com/716784/LF-Partners-Charles-Frischer-Sends-Letter-to-Special-Committee-Requesting-Buyout-Group-and-Special-Committee-Agree-to-1650-Final-Price

Common Stocks - Mark to Market

- **Altius Minerals** **ALS.TO**
- **Blackberry** **BB**
- **Commercial International Bank (Egypt)**
- **Foran Mining** **FOM.V**
- **Metlen** **MYTIL.AT**
- **Orla Mining** **OLA.TO**

Fairfax: Equity Portfolio: Split by Accounting Treatment		
	Ownership	**Comments**
A.) Mark to market	Own < 20%	
B.) Associates	Own 20 to 50%	Significant infl. but not control
C.) Consolidated	Own > 50%	Control

Altius Minerals – ALS.TO – Collecting Royalties from Mining Companies

January 15, 2026

Altius is a diversified mining royalty and streaming company with exposure to copper, zinc, nickel, cobalt, potash, iron ore, precious metals, and both thermal and metallurgical coal. Its business model centers on collecting royalties from producing mines—providing commodity upside with limited operating risk.

Fairfax's Investment Snapshot

As of January 15, 2026:

- Market value of Fairfax's stake: ~$218 million
- Portfolio weight: ~0.8% of Fairfax's ~$27 billion equity portfolio

This is a relatively small position for Fairfax and does not rank among its top 20 holdings.

How Has Fairfax's Investment Performed?

Fairfax invested $78 million (C$100 million) in Altius in February 2017. Over the past 9 years, the investment has generated:

- Total value created: ~$164 million
  - Includes increase in market value, interest, and dividends
- Total return: ~211%
- Compound annual growth rate (CAGR): ~13.4%

While returns have been steady over time, a meaningful portion of the value creation has occurred over the past year. Overall, Altius has been a solid long-term investment for Fairfax.

Fairfax - Total Return on Investment in Altius Minerals

Jan 15, 2026	Transaction Date	Shares million	Shares Price C$	Total Value C$ m	Total Value US$ m		
Preferred Investment	April 2017			$100	$0		
Exercised warrants	April 2022	6.67	$15.00		$0		
Adjusted total cost		**6.67**	**$15.00**	**$100**	**$78**		
Market value Jan 15, 2026			$45.60	$304	$218		
Increase in market value since inception (April 2017)					**$140**	**180%**	
Interest payments on preferred securities = 5% (2017-2022)				$25	$18		
Dividend payments on Altius stock (2022 to 2025YTD)				$9	$6		**9-Yr CAGR**
Total return on investment since inception (April 2017)					**$164**	**211%**	**13.4%**

Company Web Site: https://altiusminerals.com

Investor Presentation: January 12, 2026

https://altiusminerals.com/_resources/presentations/corporate-presentation.pdf?v=0.669

A short history of Fairfax's investment in Altius

Fairfax made an initial investment of $78 ($C100) in Altius (preferred securities and warrants) in February of 2017.

Fairfax to Make Strategic Investment in Altius

- https://www.globenewswire.com/news-release/2017/02/24/1160579/0/en/Fairfax-to-Make-Strategic-Investment-in-Altius.html

In 2022, Fairfax converted their preferred share and warrant investment in Altius into a 14% equity interest (6.7 million shares).

Comments from Prem about Altius Minerals from Fairfax's 2024AR.

"We continue to own 14% of Altius Minerals, which had a solid year with royalty revenues up 6%, excluding thermal coal. Bright spots included its base metal royalties which increased 6% due to higher copper prices and its renewable royalties which increased 68%. Potash royalties fell 23% due to lower potash prices. One very positive development for Altius in late 2024 involved its 3% gross sales royalty on the Kami Iron Ore Project in the Labrador Trough. Majority owner Champion Iron Ore entered into a binding agreement with its partners to advance the development of this project. This royalty has the potential to become one of Altius' largest royalty streams. Another important royalty that may add significant value to Altius is its 1.5% net smelter royalty on AngloGold Ashanti's proposed Silicon gold project in Nevada. In 2024, Northampton Capital Partners purchased publicly listed shares of Altius Renewable Royalties, representing a 43% stake in the company, for Cdn$12 per share, a 28% premium. Altius continues to own the other 57%. Brian Dalton has done an outstanding job and has generated substantial growth in intrinsic value since we made our investment in 2017." *Prem Watsa – Fairfax 2024AR*

BlackBerry – BB – Winding Down a Big Mistake

December 31, 2025

A lot has happened in the 2.5 years since my last post on BlackBerry.

On February 15, 2024, Prem Watsa resigned from BlackBerry's board after serving since November 2013. Around the same time, Fairfax fully exited its long-standing debenture investment.

Fairfax's Debenture Investment Timeline

- November 2013: Initial investment of $500 million
- September 2020: Reduced to $330 million
- November 2023: Reduced to $150 million
- February 2024: Fully exited

In Q2 and Q3 of 2025, Fairfax also began selling down its common stock position:

- Shares reduced from 46.7 million to 35.4 million
- 11.3 million shares sold (24% reduction)

Fairfax is in the process of exiting one of its worst investments ever. BlackBerry was Fairfax's third-largest equity position in 2020 (including debentures). Today it ranks #27—and falling.

BlackBerry Has Quietly Become a Good News Story

Over the past five years, Fairfax has aggressively reduced its exposure to BlackBerry. Roughly $543 million of capital has been redeployed from a chronically underperforming asset into more productive opportunities.

Just as importantly, senior management has removed a major distraction. This frees up scarce managerial bandwidth for higher-return activities. That is a win for shareholders.

This fits a broader pattern. Over the past eight years, Fairfax has been:

- Cutting weeds
- Watering flowers

In other words:

- Demonstrating rational decision-making
- Redeploying capital toward better opportunities

This helps explain:

- Why Fairfax's equity returns have been strong recently
- Why future results should be better than past results

Fairfax's Current Exposure

As of December 31, 2025:

- Market value of stake: ~$134 million
- Portfolio weight: ~0.5% of Fairfax's ~$26.7 billion equity portfolio

BlackBerry is now a very small position for Fairfax – it does not rank among the top 25 holdings.

Why BlackBerry Is So Hard for Me

July 31, 2023

This post will tell readers much more about me than Fairfax or BlackBerry. But I suspect many Fairfax shareholders feel the same way. So, with that out of the way, here goes…

Of all the topics I write about, BlackBerry is the hardest. Whenever I think about it, I get a sinking feeling in my gut. As a result, I've largely avoided writing about it over the years.

Fairfax first invested in BlackBerry in 2011. I followed them in and bought Research in Motion (RIMM), as it was known then. After listening to my third earnings call, it became clear to me the founders were in over their heads. Brilliant engineers—but struggling (to put it mildly) to run a large company in an industry being disrupted by Apple, Android, and Samsung. So, I sold my position at a modest loss. Fairfax kept buying.

Ironically, buying Blackberry ended up being one of my best investment decisions ever. It taught me about the cell phone industry. In early 2013, Apple was getting taken out behind the woodshed—trading around $15/share (split-adjusted) amid concerns about succession (Steve Jobs had recently passed away) and a belief that Android and Samsung were going to take over the smartphone world. I started buying Apple early that year and backed up the truck in June. It turned into one of my best investments ever… and I have Fairfax and BlackBerry to thank for that.

Back to our story. BlackBerry has been a disaster for Fairfax for several reasons:

- Poor initial analysis – a textbook value trap
- Completely mis-judged senior management. They were terrible.
- Canadiana bias: I suspect what led Fairfax into BlackBerry and kept them there was a desire (back then) to build another "Canadian champion" (to go along with Recipe, and Abitibi).
- Throwing good money after bad – averaging down as fundamentals/news worsened
- Reputational damage – to both Prem and Fairfax

The good news is BlackBerry is now a small position for Fairfax. I follow the company very little today. I have tried to listen to earnings calls a couple of times but can never make it through – too much "big hat no cattle" type of talk. My view is some investments in a portfolio need to get sold. For psychological reasons. Get rid of the dogs and move on. I understand that is not a rational thing to say. BlackBerry does that to me.

Commercial International Bank – Great bank. Tough country. (Egypt)

January 15, 2026

Commercial International Bank (CIB) is Egypt's leading private-sector bank and one of the country's most respected publicly traded companies. Fairfax first invested in CIB in August 2014, committing approximately $330 million. Today, Fairfax owns roughly 6.26% of the company.

Fairfax's Investment Snapshot

As of January 15, 2026:

- Market value of Fairfax's stake: ~$553 million
- Portfolio weight: ~2% of Fairfax's ~$27 billion equity portfolio
- Portfolio rank: CIB is Fairfax's 14th largest equity holding

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Company web site: https://www.cibeg.com/en/investor-relations

Corporate Presentation – Q3-2025: https://www.cibeg.com/-/media/project/downloads/investor-relations/ir-library/ir-and-esg-presentations/2025/3q25-ir-ppt.pdf

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Recent Performance: How Has Fairfax's Investment Done?

CIB delivered a very strong year in 2025. And it has started 2026 very strong.

- Market value (Dec 31, 2024): ~$331 million
- Market value (Jan 15, 2026): ~$553 million
- Increase: +$222 million (+67%)

CIB also pays a dividend, though I have not quantified the cumulative payout over the years. However, this recent strength masks a long period of disappointment. From 2014 to 2024, CIB was a poor investment for Fairfax in USD terms. Returns were likely limited to dividends. Therefore, the opportunity cost of holding the position was substantial.

Fairfax: Performance of MV of Commercial International Bank (Egypt)

January 15, 2026				Change		Shares
	Stock Price		MV of	in Market Value		Owned
million US$	EGP	US$	Position	$ m	%	by FFH
Dec 31, 2024	£78.50	$1.54	$331	n/a	n/a	214.7
Dec 31, 2025	£103.00	$2.16	$464	$132	40%	
Jan 15, 2026	£121.71	$2.58	$553	$90	19%	
Total Increase in MV - Past 12.5 Months				**$222**	**67%**	

So, What's Problem?

CIB itself is not the problem. It is:

- Well managed
- Operationally strong
- Consistently profitable

The issue is location.

Egypt—like much of Africa—is politically and economically unstable. Chronic currency depreciation has repeatedly wiped out the benefits of CIB's strong operating performance for foreign investors. Local-currency success has failed to translate into meaningful USD returns.

This is a classic case of a great business trapped in a difficult macro environment.

Bottom Line

It will be interesting to see how CIB performs moving forward – does business quality (finally) win over country risk?

Comments from Prem about Commercial International Bank from Fairfax's 2024AR.

"Commercial International Bank (CIB) led by Hishan Ezz Al-Arab had very strong results in 2024 with an ROE of 50%, net interest margin of 9.5%, earnings growth of 86% and loan-loss provision coverage ratio of 351%. There is significant hidden value in the build-up of provisions on the balance sheet which, if adjusted for, reduces the price-to-book ratio to 1.2x. Since 2014, the bank has continued to compound book value per share and EPS by nearly 20% per annum. The key driver of value to Fairfax and other foreign investors in CIB is the stability of the Egyptian pound and the development of new businesses within the bank. CIB is close to launching a new tech-enabled business line which caters to retail banking and lower-income markets. CIB's shares are trading at very attractive levels at 4x earnings. The Egyptian government asset disposal program is well underway with $35 billion committed by the Abu Dhabi Investment Authority to develop the Egyptian North Coast. Many other infrastructure assets including the country's largest airports will also be sold to address the country's high sovereign debt. While there is much work to do, opportunity awaits given the relatively low asset prices and size of the market with over 100 million people. Since our purchase of CIB shares, they have increased 664%, compounding at 21% per year in local currency (including dividends). Unfortunately, due to depreciation in the Egyptian pound, our return in US dollars is just 7% or 1% per year." *Prem Watsa – Fairfax 2024AR*

Foran Mining – FOM.TO – Getting Positioned on Copper

December 31, 2025

Fairfax's investment in Foran Mining represents a direct, high-leverage exposure to copper and to Foran's transformation from a development-stage company into a producer.

Fairfax's Investment Snapshot

As of December 31, 2025:

- Market value of Fairfax's stake: ~$448 million
- Portfolio weight: ~1.7% of Fairfax's ~$26.7 billion equity portfolio
- Portfolio rank: Foran is Fairfax's 15th largest equity holding

Fairfax currently owns approximately 22% of the company.

Company Web Site: https://foranmining.com/investors/

Corporate Presentation:

https://foranmining.com/wp-content/uploads/2022/09/Foran-Corporate-Presentation.pdf

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History of Fairfax's Investment

Fairfax first invested in Foran Mining in August 2021 and subsequently added to the position five additional times.

- Cost of total investment: ~ $234 million
- Average cost per share: ~ C$2.55

Foran Mining - History of Fairfax's Investments

Dec 31, 2025	Transaction Date	Shares m	Shares Price C$	Total Cost C$ m	Total Cost US$ m
Initial investment	Aug 2021	55.6	$1.80	$100	$80
Exercised warrants	Oct 2022	16.0	$2.09	$33	$24
Private Placement	Dec 2023	2.4	$4.10	$10	$7
Private Placement	Aug 2024	10.3	$4.05	$42	$30
Private Placement	Sept 2024	12.5	$4.05	$51	$37
Private Placement	May 2025	25.0	$3.00	$75	$55
Estimate of Total Cost		**121.9**	**$2.55**	**$311**	**$234**

How Has Fairfax's Investment Performed?

Foran delivered a very strong year in 2025:

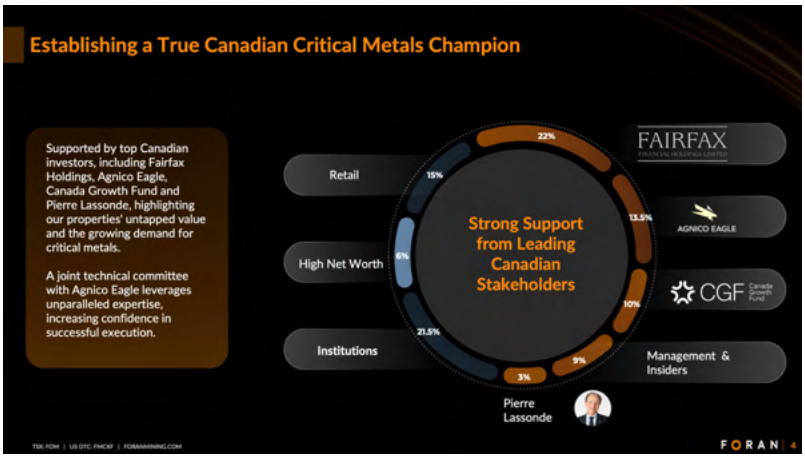
- Market value increase: +$128 million
- Return: +40%

This reflects both copper price optimism and confidence in Foran's development progress. Despite the strong gains, this remains an early-stage investment. Foran is still pre-production, with first commercial output expected in 2026. If copper prices rise meaningfully over the coming cycle, the upside potential remains substantial.

Fairfax: 1-Year Increase in MV of Foran Mining				Shares
Dec 31, 2025	Stock	MV of Position		Owned
Legacy Holding	Price (C$)	C$ (m)	US$	by FFH
Dec 31, 2024	$3.93	$381	$265	96.9
Dec 31, 2025	$5.04	$488	$356	96.9
Increase in MV - Legacy			**$91**	
New Purchase				
Private Placement - May 2025	$3.00	$75	$55	25.00
Dec 31, 2025	$5.04	$126	$92	25.00
Increase in MV - New Purchase			**$37**	
Total Increase in Market Value in 2025			**$128**	**40%**
Year-End Market Value	**$5.04**	**$614**	**$448**	**121.9**

High-Quality Partners

Since 2018, Fairfax has done an outstanding job of partnering with very strong entrepreneurs and management teams with their new equity investments. Foran Mining is a good example of this. With Foran, Fairfax is partnered with Agnico Eagle, Canadian Growth Fund and Pierre Lassonde.



Comments from Prem about Foran Mining from Fairfax's 2024AR.

"Dan Myerson and Darren Morcombe continued to make great progress in building the world-class McIlvenna Bay carbon-neutral copper project in Saskatchewan. Foran Mining expects to begin production at the site by the end of 2025 and will be producing at commercial rates in the first half of 2026. Foran's adjacent Tesla deposit is showing continuity between Tesla and McIlvenna Bay and is demonstrating even higher minerals grades than McIlvenna. Foran is planning an extensive drilling program on the Tesla deposit in 2025, with eight rigs drilling 30,000 meters. It is likely that Tesla will more than double the size of Foran's total reserves. Foran made great strides in fully funding its McIlvenna Bay project with a Cdn$360 million equity issuance. Fairfax participated in the equity financing, as did Agnico Eagle Mines, one of the world's most astute mining companies. In addition to raising equity, Foran upsized its non-revolving credit facility with Sprott Resources to $250 million and the company signed a contribution agreement with the Canadian Government through the Strategic Innovation Fund for funding of up to Cdn$41 million to develop McIlvenna Bay. Phases 1 and 2 of the McIlvenna Bay/Tesla mine are now effectively fully funded. Foran is carried on our balance sheet at the listed market price of $2.70 per share (Cdn$3.89) or $262 million."

Prem Watsa – Fairfax 2024AR

August 1, 2024: YouTube interview with CEO Dan Myerson

YouTube Interview with Foran Mining CEO Dan Myerson - hosted by The Deep Dive

https://youtu.be/8FbXTgMTvmY?si=V02I_NGL0H_f0aZI

"In this interview, Dan Myerson, Chairman & CEO of Foran Mining, discusses the company's copper projects in Saskatchewan and their journey from exploration to production. Myerson shares his bullish outlook on copper, citing supply constraints and increasing demand. He explains Foran's focus on creating shareholder value, their successful permitting and financing processes, and their partnership with key investors. Myerson outlines the company's plans to start commissioning in August 2025, with commercial production expected in early 2026. He emphasizes the importance of

their VMS system, which offers long-term potential, and discusses the challenges of mine development in Canada. The interview also touches on Foran's exploration efforts, upcoming milestones, and their vision for becoming a significant copper producer while maintaining a focus on value per share."

Metlen Energy and Metals – MYTIL.AT – Watering a Flower

December 31, 2025

Metlen (formerly Mytilineos) is a global industrial and energy company operating across two highly complementary business segments: Energy and Metals. These segments are deeply interconnected, creating powerful operational synergies that unlock hidden value and materially enhance the company's overall performance.

Fairfax's Investment Snapshot

As of December 31, 2025:

- Market value of Fairfax's stake: ~$614 million
- Portfolio weight: ~2.3% of Fairfax's ~$26.7 billion equity portfolio
- Portfolio rank: Metlen is Fairfax's 8th largest equity holding

Fairfax currently owns approximately 8.35% of the company.

Corporate Presentation: 1H-2025

https://www.metlengroup.com/media/lymoxkh5/h1_2025_financial_results_presentation.pdf

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History of Fairfax's Investment

Fairfax has been building its position in Metlen for over a decade:

- 2012–2013: Initial investment during the Greek financial crisis (~$22 million)
- December 2022: Major addition to the position (~$106 million)
- March 2025: Further increase (~$119 million)

Fairfax clearly understands the business deeply and has demonstrated growing conviction over time by consistently adding to its stake.

Metlen: History of Investments Made by Fairfax						
Dec 31, 2025	Transaction	Shares		Total Cost		
	Date	million	Price €	€ m	US$ m	Comments
Initial investment - 2012 & 2013		3.99	€ 5.13	€ 20	$22	This is a very rough estimate
Add to position	Dec 2022	2.70	€ 18.50	€ 50	$53	
Exchangeable Bonds	Dec 2022	2.50	€ 20.00	€ 50	$53	Exchanged to shares Feb 2025
Exchangeable Bonds	Mar 2025	2.75	€ 40.00	€ 110	$119	Exchanged to shares July 2025
Rough estimate of total cost		**11.94**	**€ 19.30**	**€ 230**	**$246**	

2025 Performance: How Has Fairfax's Investment Done?

Metlen delivered a very strong year in 2025:

- Market value increase: +$179 million
- Dividends received: +$21 million
- Total return: +$200 million
- Return: +46%

The company is exceptionally well managed and highly entrepreneurial. The company is strategically positioned as Europe increasingly seeks domestic industrial champions in energy and critical materials. Given Fairfax's aggressive accumulation of shares in recent years, it is clear management has high confidence in Metlen's future prospects.

Fairfax: 1-Yr Total Return on Metlen Investment				Shares
Dec 31, 2025	Stock	MV of Position		Owned
Legacy Holdings	Price	Euro	US$ (M)	by FFH
Dec 31, 2024	€ 33.520	€ 308	$317	9.19
Dec 31, 2025	€ 43.800	€ 403	$473	9.19
Increase in MV - Legacy			**$156**	
New Purchase				
March 2025	€ 40.000	€ 110	$119	2.75
Dec 31, 2025	€ 43.800	€ 120	$141	2.75
Increase in MV - New Purchase			**$23**	
Dividend - July	**€ 1.529**	**€ 18**	**$21**	
Total Shareholder Return in 2025			**$200**	**46%**
Year-End MV	**€ 43.800**	**€ 523**	**$614**	**11.94**

Articles on Fairfax's different investments in Metlen/Mytilineos.

October 21, 2013: Canada's Fairfax buys Mytilineos stake in second bet on Greece
https://www.reuters.com/article/us-greece-fairfax/canadas-fairfax-buys-mytilineos-stake-in-second-bet-on-greece-idUSBRE99K05H20131021

December 13, 2022: Fairfax becomes the 2nd largest shareholder in Mytilineos
https://www.metlengroup.com/news/company-news/fairfax-becomes-the-2nd-largest-shareholder-in-mytilineos/

March 24, 2025: Fairfax increases again its stake in Metlen
https://www.metlengroup.com/news/ase-announcements/corporate-actions/fairfax-increases-again-its-stake-in-metlen/

Orla Mining - OLA.TO – ~~Prospecting for~~ Discovering Gold

January 20, 2026

Recent Developments

Orla released a production update for Q4-2025. It was better than expected.

Orla Mining Achieves Record Quarterly Production Propelling Company Above 300,000 Ounces for 2025, setting up a Catalyst-Rich 2026

https://www.newswire.ca/news-releases/orla-mining-achieves-record-quarterly-production-propelling-company-above-300-000-ounces-for-2025-setting-up-a-catalyst-rich-2026-821150642.html

Shares are spiking higher. 20 days into 2026, Fairfax's investment in Orla is up ~$250 million. This is after a $729 million gain in 2025. Yes, Orla has been an outstanding investment.

Fairfax: YTD-2026 Increase in MV of Orla Mining

Market Value	Shares	C$	US$	Total $	
Dec 31, 2025	76.9	$18.46	$13.45	$1,034	
Jan 20, 2026	76.9	$23.11	$16.71	$1,285	
Increase - YTD-2026				**$251**	**24%**

Shares: includes common, convertible bonds and warrants

December 31, 2025

Orla Mining Ltd. is a Vancouver-based mining company focused on acquiring, exploring, developing, and operating mineral properties to produce gold, silver, zinc, lead, and copper.

Fairfax first invested in Orla between Q3-2022 and Q3-2024, accumulating 56.8 million shares through open-market purchases. In November 2024, Fairfax increased its exposure by investing $150 million in convertible bonds and warrants, bringing its total exposure to 101.9 million shares.

On December 5, 2025, Fairfax reduced its position by approximately 25%, selling 25 million shares.

Fairfax's Investment Snapshot

As of December 31, 2025:

- Market value of Fairfax's stake: ~$1.0 billion
- Portfolio weight: ~3.8% of Fairfax's ~$26.7 billion equity portfolio
- Portfolio rank: Orla is Fairfax's 4th largest equity holding.

Company Website: https://orlamining.com/investors/

Company Presentation: December 2025

https://wp-orlamining-2024.s3.ca-central-1.amazonaws.com/media/2025/12/Orla-Corporate-Presentation-12-2025.pdf

Podcast (January 2026): CEO Jason Simpson goes Inside the ICE House to discuss Orla's evolution, the strategy behind its diversified portfolio, and the drivers of its strong long-term returns. He also shares how sustainability, AI, and rising global demand for critical minerals are shaping the company's path toward its next phase of growth.

https://podcasts.apple.com/ca/podcast/inside-the-ice-house/id1347746738?i=1000745712759

Performance in 2025

With gold prices surging, 2025 performance was exceptional:

- Total return: +$729 million
  - Continuing position: +$551 million
  - Shares sold: +$177 million (128% return)

Orla has quickly become one of Fairfax's best investments in recent years.

Fairfax: 1-Year Total Return on Investment in Orla Mining - 2025

Current Position	Shares	C$	US$	Total $	When Investment Was Made
Common Shares - Dec 31, 2024	31.8	$7.96	$5.54	$176	Purchased Q3 2022 to Q3 2024
Convertible Bonds	27.2	$7.90	$5.76	$157	Nov 2024; Conversion price
Warrants	17.9	$11.50	$8.38	$150	Nov 2024; Exercise price
Total Cost (assuming conversion + exercise)				**$483**	
Market Value - Dec 31, 2025	76.9	$18.46	$13.45	$1,034	
Total MTM Gain in 2025 on Current Position				**$551**	**114%**
Position Sold	**Shares**	**C$**	**US$**	**Total $**	**When Investment Was Sold**
Common Shares - Dec 31, 2024	25.0	$7.96	$5.54	$139	Purchased Q3 2022 to Q3 2024
Proceeds - Dec 5, 2025	25.0	$17.64	$12.64	$316	Common shares sold Dec 2025
Total Gain in 2025 on Position Sold				**$177**	**128%**
Total Gain in 2025 from Investment in Orla				**$729**	

Return on Shares Sold in 2025

On December 5, 2025, Fairfax announced the sale of 25 million shares for $316 million (roughly 25% of its total position, including convertibles and warrants).

Performance on shares sold:

- Cost: ~$98 million ($3.94 per share)
- Sale price: $316 million ($12.64 per share)
- Profit: $218 million (~$8.71 per share)
- Return: 221%

Fairfax invested a total of $374 million in Orla ($224 million equity + $150 million convertibles). This partial sale returned a significant amount of its original investment.

Fairfax's Investment in Orla Mining
Estimating Return on 25m Shares Sold

December 5, 2025	Per Share		Total
	C$	US$	US$
Estimated cost	$5.50	$3.94	$98
Sale price	$17.64	$12.64	$316
Return		**$8.71**	**$218**
			221%

A Lesson in Capital Allocation

In 2022, Fairfax sold Resolute Forest Products for a premium price at the top of the lumber cycle. Late in 2024, they sold Stelco to Cleveland Cliffs at a premium price, capitalizing on the acquisition mania in steel producers. And now they are selling 25% or Orla for another big gain. This is just the latest example of Fairfax's management team executing at a very high level. Over the past five years, they have been putting on a master class in capital allocation.

Why Is Orla Surging?

Orla's share price has been on fire over the past 18 months:

- June 30, 2024: $3.90
- December 31, 2025: $13.45
- Gain: +245%

What is going on?

Gold is widely viewed as a hedge against:

- Uncertainty
- Inflation

Today, we have both. It should not surprise anyone that gold prices have been ripping higher — and that Orla's share price has followed.

Where Do We Go from Here?

President Trump is still early in his second term. My guess is elevated uncertainty will persist for at least the next three years.

Tariffs are central to Trump's economic strategy. Tariffs are inflationary. My expectation is inflation remains elevated (around 3%?) for several more years.

Bottom line: The current bull market in gold could continue for a few more years. If so, Fairfax's investment in Orla may just be getting started.

The Investment Thesis

With its investment in Orla, Fairfax is effectively betting on:

1. Gold prices staying higher for longer.
2. Above-average management at Orla, capable of transforming the company from a two-asset producer into a multi-asset, intermediate-sized gold producer.
3. A strong ownership group — Fairfax, Fidelity, Pierre Lassonde — which enables long-term thinking and rational, shareholder-friendly capital allocation.

Fairfax planted another seed in its equity portfolio. In a short time, it has already turned into another home run. It will be fascinating to see whether gold's improbable march higher continues.

Partnering With Proven Winners

Fairfax is not blindly speculating in commodities. They are consistently partnering with world-class operators and investors.

Jurisdiction Matters

The majority of Fairfax's resource investments are located in North America — a far lower-risk jurisdiction than many global mining regions. This is no accident. All of Orla's producing assets are in North America.

Experience Matters

Yes, Orla looks like a terrific investment for Fairfax. But there is a bigger lesson here.

Fairfax has a deeply seasoned investment team — both at corporate and at Hamblin Watsa. Some team members were active investors in the 1970s and 1980s, the last sustained inflationary period. That experience likely contributed to Fairfax initiating this position back in 2022.

In an environment of high uncertainty and persistent inflation, experience matters more than ever. Fairfax appears extremely well positioned not just to survive — but to thrive. Orla is a real-world example of that advantage.

Comments about Orla Mining from Prem from Fairfax's 2024AR.

Orla Mining, run by Jason Simpson and his exceptional team, had a transformative 2024. In November, Orla announced the acquisition of the Musselwhite gold mine in Ontario from Newmont. Fairfax participated via a $150 million investment in convertible bonds (4.5% coupon, Cdn$7.90 conversion price and 0.66 of a warrant with a Cdn$11.50 per share exercise price). Musselwhite is a low-cost, long-life asset in one of the best mining jurisdictions in the world. The addition of Musselwhite will more than double Orla's annual gold production to approximately 300,000 ounces a year. Orla's Camino Rojo open pit mine in Mexico continues to perform extremely well, producing approximately 137,000 ounces of gold in 2024. Exploration activity at Camino is indicating the viability of an underground mine at the site with attractive economics. Lastly, progress continues to be made in permitting their South Railroad mine in Nevada.South Railroad is likely to be a low-cost mine with high free-cash flow. Orla generates attractive levels of free cash flow and has ample liquidity to fund its development and exploration activity. Orla is carried at its listed price of $5.47 per share (Cdn$7.87) or $311 million. *Prem Watsa – Fairfax 2024AR*

Common Stocks – Associates (Equity Accounted)

- Blizzard Vacatia
- EXCO Resources
- John Keells Holdings
- Quess Corporation
- Waterous Energy Fund III

Fairfax: Equity Portfolio: Split by Accounting Treatment		
	Ownership	Comments
A.) Mark to market	Own < 20%	
B.) Associates	Own 20 to 50%	Significant infl. but not control
C.) Consolidated	Own > 50%	Control

Blizzard Vacatia – Partnering with an Entrepreneur / Boosting Yield of Fixed Income Portfolio

August 1, 2025

Update from Wade Burton on the investment in Blizzard Vacatia.

> It's early days in the timeshare investment, Berkeley, run by Caroline Shin, but so far, it has exceeded expectations. Berkeley has approximately 125,000 available room nights per month. They started the year at virtually nil occupancy for overnight stays. In month one, Caroline brought that number to 10%, the next month 20%, and the third month 35%. I'm happy to report year to date operating income has already reached our full year expectations. Again, outstanding and capable partners doing an excellent job for Fairfax shareholders. *Wade Burton – Fairfax Q2-2025 conference call*

July 30, 2025

One of Fairfax's largest investments in 2025 (January) was the purchase of the Berkley Group, one of the largest independent timeshare companies in the US. With this deal, Fairfax partnered with Caroline Shin and her team at Vacatia. The partnership is called Blizzard Vacatia. This is a private holding that is equity accounted by Fairfax.

Fairfax provided the majority of the financing to acquire the Berkley Group. Vacatia is providing the operational expertise to run and maximize the value creation from the assets of the Berkley Group.

"Blizzard Vacatia, through its subsidiaries, is engaged in the development, sales, marketing and rental of timeshare resorts." *Fairfax 2024AR*

Fairfax invested a total of $835 million in Blizzard Vacatia, as follows:

Fairfax - Summary of Investment in Blizzard Vacatia			Annual	
January 2025	Total	Interest	Interest	
Description	**US$**	**Rate**	**Income**	**Comments**
Senior Secured Note - 7-Year	$365	9.5%	$35	
Mortgage Warehouse Loan	$170	8.4%	$14	Mortgage backed (SOFR + 4%)
Preferred Note - 5-Year	$275	13.5%	$37	Preferred shares
Total	**$810**	**10.6%**	**$86**	
Equity	$25			Common shares
Total Fairfax Investment	**$835**			
Equity = $50 million. Funded 50% by Farifax and 50% by Caroline and her partners.				

Fairfax's investment is structured in an interesting way. It is a combination of debt and equity. The annual interest income is meaningful. And there is additional upside potential with the equity.

Growing the average yield on their fixed income portfolio

This investment (along with the acquisition with Kennedy Wilson of the real estate loan portfolio/infrastructure from PacWest) provides a couple of good examples of how Fairfax is over time thoughtfully shifting some of their fixed income portfolio from government bonds to higher yielding corporate securities. This helps improve the average yield on their fixed income portfolio.

Who is Vacatia?

Below is an article that discusses Vacatia's recent purchases and emerging capabilities.

Vacatia's Bold Move: A New Era for Independent Resorts

- https://resorttrades.com/vacatias-bold-move-a-new-era-for-independent-resorts/amp/

The timeshare industry is undergoing significant change with Vacatia's acquisition of The Berkley Group and Daily Management, a move that strengthens its position as a key player in the independent resort sector. With the acquisition, Vacatia's portfolio now includes 460,000 owners,

2,500 associates, and over 11,000 units across 13 states. This means Vacatia is now one of the top five vacation ownership companies in the United States.

The acquisition combines Berkley's expertise in sales, Daily Management's experience in resort operations, and Vacatia's technology and rental solutions. Shin sees this integration as a way to provide independent resorts with more flexibility and support.

"Independent resorts now have a partner that has every capability of helping an independent resort, large or small," she says. "We are celebrating the independent resorts, giving them the ability to remain independent, but at the same time leveraging the scale that comes with Vacatia having their back."

One key area where Vacatia sees opportunity is in technology-driven efficiencies, which have historically been more difficult for independent resorts to implement. Shin points to maintenance, housekeeping, reservations, and owner services as examples of areas that can be improved with better digital tools.

Who is Caroline Shin, CEO and Co-founder of Vacatia?

Caroline co-founded Vacatia to bring innovation and new ideas to timeshares. As a seasoned technology and hospitality executive, Caroline already pioneered well-known travel programs that are now mainstays in the hospitality industry. She was a member of the founding team of Hotwire.com, where she led product and technology functions to develop one of the first online travel agencies in the world. She led CRM and revenue management for Starwood Hotels & Resorts Worldwide, launching a first-of-its-kind pricing and marketing platform that empowered hotels to make impactful, data-driven decisions. At Sentient Jet, she delivered industry-leading customer service by cultivating deep client relationships combined with algorithmic analysis of each flight plan to forecast service issues before they occur. She was also a technology and strategy consultant at Accenture and Scient, advising both Fortune 500 and startup clients to adapt their business online. Caroline is a member of the Board of Directors of the American Resort Development Association (ARDA) and holds a degree in nuclear engineering from MIT.

- https://www.vacatiapartnerservices.com/blank

On Feb 13, 2025, the Fairfax's investment in Blizzard Vacatia was discussed on the investing forum 'Corner of Berkshire and Fairfax.' Click the link below for more:

- https://thecobf.com/forum/topic/16427-fairfax-stock-positions/page/94/#findComment-601100

Comments from Wade Burton about Blizzard Vacatia from Fairfax's Q4-2024 conference call.

Second, I wanted to discuss an investment that closed just after year-end 2024. We invested in the largest independent timeshare company in America called the Berkeley Group. Caroline Shin and her team at Vacatia are Fairfax partners here. The investment is underpinned by asset value, where we directly own 4,950 full-service vacation units mostly located in Las Vegas, Orlando, and other high-traffic vacation areas in the U.S. The opportunity here is for Caroline and her team to generate overnight rental income from the huge stock of nightly vacancies. Her experience designing Hotwire online booking software and then as an executive at Starwood is perfect for what Vacatia is trying to do with Berkeley.

In fact, prior to this acquisition, her group at Vacatia made investments in five smaller timeshare assets from 2019 to 2024, and in each case, they were very successful at significantly growing EBITDA in a short period of time. The total deal was $835 million, which we funded with a $275 million five-year preferred note at 13.5%, a $365 million seven-year senior secured note at 9.5%, and $170 million mortgage warehouse loan with a five-year maturity at SOFR plus 400. The $50 million equity is funded 50% by Fairfax and 50% by Caroline and her partners. We are absolutely thrilled to be her partner on this. *Wade Burton – Fairfax Q4-2024 Conference Call*

Comments from Prem about Blizzard Vacatia from Fairfax's 2024AR.

Early in 2025 we invested in the Berkley Group, the largest independent timeshare company in the United States. Caroline Shin and her team at Vacatia are partners with us on this investment. This investment results in us owning 4,950 full-service vacation units mostly located in Las Vegas, Orlando and other high-traffic vacation areas in the U.S. There is great opportunity for Caroline and her team to generate additional overnight rental income from the huge stock of nightly vacancies. In fact, her group at Vacatia made investments in five smaller timeshare assets from 2019 to 2024 and this strategy helped to generate strong growth in EBITDA and free cash flow. Her experience designing Hotwire online booking software and as an executive at Starwood is perfect for what Vacatia is trying to do with Berkley. Our total cash investment was $835 million comprised of a senior secured loan, preferred shares, a mortgage-backed loan and common shares. We are very excited to work together with Caroline and her team at Vacatia on this investment.

Prem Watsa – Fairfax 2024AR

From Fairfax's 2024 Annual Report

Subsequent to December 31, 2024

On January 1, 2025 the company acquired a 50.0% equity interest in Blizzard Vacatia Equity Partners LLC ("Blizzard Vacatia"). The company's total cash investment of $835.0 was comprised of a senior secured loan of $365.0, preferred shares of $275.0, a mortgage-backed loan of $170.0 and common shares of $25.0. Blizzard Vacatia, through its subsidiaries, is engaged in the development, sales, marketing and rental of timeshare resorts. *Fairfax 2024 AR*

EXCO Resources – Private US natural gas producer

Recent Developments

Exco Resources is a private holding. As such, it is difficult to get information on the company. Sometimes we get a peek behind the curtain from funds that holds the company in its portfolio. Below is one example.

Cedar Creek Partners

January 26, 2026, update on their investment in Exco Resources.

https://static1.squarespace.com/static/5ea6570a0ba57d406203e048/t/6971662dea3ab16d2ec514e0/1769039405165/Q4+2025+Results+for+Cedar+Creek+Partners.pdf

During the quarter we added a new major expert market position, **Exco Resources** (expert: EXCE). We have followed the company for a number of years and previously owned shares in 2021. Exco is an independent oil and gas company focused on onshore US shale development and production. Their primary areas of focus are Haynesville and Bossier shale in east Texas and north Louisiana, Eagle Ford shale in south Texas, and Marcellus and Utica shales in Appalachia. Exco went through a restructuring and emerged from Chapter 11 in 2019. Exco has performed very well since then (see stock chart to the right). Production is nearly 90% natural gas.

At the end of 2020 Exco had just over $560 million of equity ($11 per share based on 51 million shares). Fast forward to September 2025 and Exco had equity of nearly $1.1 billion ($23 per share based on roughly 46 million shares). Mark-to-market gains and losses on derivatives (hedging) make their earnings swing wildly. We ignore most of that and focus on operating income and cash flow. What caught our attention was their increased production the last three quarters - from 22 Bcfe (billion cubic feet equivalent) in the March quarter, rising to 27 Bcfe in June, and then to nearly 36 Bcfe in September. Additionally, in December they announced a $430 million capex budget for 2026 compared to a ~$185 million budget for 2025. We don't think you have to be an expert on

future natural gas prices or well flow rates to like the setup. With production set to increase and having a proven track record of hedging successfully, we are quite optimistic. If natural gas goes to $2 per mcf, Exco is near breakeven, but will have about $4 per share in cash flow. Assuming a 10% increase in production and pricing of $3 per mcf we think they can earn about $3 per share (and have $7 per share in cash flow), and at $4 per mcf they would push $6 per share (and have total cash flow of about $10 per share) in comparison to its current $19 per share price. As we write this, current two year strip pricing averages about $3.75 per mcf. Hopefully we are underestimating their potential production increase.

Lastly as of the end of 2024 reserves were 28 times production. Admittedly, 75% of reserves were undeveloped, but that is still quite impressive. Their PV-10, which is the estimated present value of Exco's future after tax cash flows discounted back at a 10% rate, was nearly $40 per share. Natural gas pricing outlook is more favorable today than it was at the end of 2024. Obviously, they would be an attractive acquisition candidate.

March 31, 2025

EXCO Resources is a US natural gas producer. It is privately held (although a very small number of its shares do trade on the over-the-counter market in the US).

At December 31, 2024, Fairfax owned 49% of EXCO.

- Carrying value = $458 million
- Market value of $460 million.

Given EXCO is a private company, very little information is available.

This investment is a play on the price of natural gas in the US.

Corporate website: http://www.excoresources.com

Company description: "We are an independent oil and natural gas company engaged in the exploitation, exploration, acquisition, development and production of onshore U.S. oil and natural gas properties with a focus on shale resource plays. Our principal operations are conducted in certain key U.S. oil and natural gas areas including Texas, Louisiana and the Appalachia region."

Comments from Prem about EXCO from Fairfax's 2024AR.

EXCO is an energy company with proved reserves that are 93% natural gas and 7% oil by volume. In 2024, natural gas prices averaged $2.27 per MMBtu. Despite weak prices, EXCO generated $233 million of adjusted EBITDA, $30 million of free cash flow and ended the year with leverage below 1.0x. We are hopeful that growing LNG exports, coal-to-gas switching and AI data centre demand will support long-term prices. But we recognize that commodity prices are inherently volatile.

Instead, our confidence in EXCO rests in its health and flexibility – its strong balance sheet, effective hedging program, avoidance of onerous transportation contracts, diligent cost control and nimble operations. These are the hallmark of skilled management. With Chairman John Wilder and CEO Hal Hickey, we are in good hands. Fairfax's Wendy Teramoto and Peter Furlan continue to work closely with management and the rest of EXCO's board. As of December 31, 2024, the fair value of Fairfax's investment in EXCO is $20.07 per share or $460 million, an increase from $19.01 per share or $435 million as at December 31, 2023. EXCO is carried on our books at less than 5x adjusted EBITDA. *Prem Watsa – Fairfax 2024AR*

John Keells Holdings – Largest Publicly Traded Conglomerate in Sri Lanka

December 31, 2025

John Keells Holdings (JKH) is the largest publicly traded conglomerate in Sri Lanka with an operating history of more than 150 years. The group has 7 business segments – leisure, property, transportation, consumer foods, retail and financial services.

Fairfax's Investment Snapshot

As of December 31, 2025:

- Market value of Fairfax's stake: ~$315 million
- Portfolio weight: ~1.2% of Fairfax's ~$26.7 billion equity portfolio
- Portfolio rank: JKH is Fairfax's 18th largest equity holding

Fairfax owns 24.3% of JKH. As a result, JKH is an associate holding (equity accounted).

In Sri Lanka, Fairfax also owns 15% in JKH Group entity Nations Trust Bank and an 78% stake in general insurer Fairfirst.

Company website: https://www.keells.com/investor-relations/

Corporate presentation: November 2025

https://www.keells.com/resource/reports/investor-presentations/investor-presentation-Q2-2026.pdf

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A short review of Fairfax's investment in JKH:

1. Fairfax made their initial investment of $125 million in JKH in 2020 (for a 10.76% position).
2. It appears Fairfax purchased more shares in 2021, increasing their position to about 13%.
3. In June of 2022, JKH raised $75 million (convertible debentures) to help the company get through the economic/currency crisis and fund the construction of the Columbo West International (Container) Terminal (CWIT) at the port of Columbo. Fairfax purchased all debentures and converted them to stock in 2024 and 2025. Post conversion, Fairfax owned about 24.3% of JKH.
4. In July 2024, JKH raised another $150 million in a rights offering to allow it to complete the large City of Dreams real estate project. Fairfax participated proportionately, which kept their ownership position in JKH at 24.3%.
5. In October 2024 (when the rights offering closed), JKH did a 10-for-1 stock split.

From 2020 to 2025, Fairfax invested a total of about $261 million in JKH. The market value of their position at May 24, 2025 is $306 million. The total return has been about $45 million or 17% (not including interest earned on the convertible debentures).
It is surprising that Fairfax's investment in JKH is up at all, given the size of the economic/currency crisis that hit the country in 2022. Fairfax was very opportunistic with its $75 million investment in 2022. This part of their investment is up about 100% (including currency). Importantly, JKH looks well positioned as a company (and investment for Fairfax) moving forward.

	Fairfax's Investmment in John Keells				**Share**	**Market**	**Rs/US$**	**Total**	
	May 24, 2025	**Transaction**	**Ownership**	**Shares**	**Price**	**Value**	**Exchange**	**Cost**	
	Transaction Details	**Date**	**Stake**	**(m)**	**rs**	**(m rs)**	**Rate**	**US$**	
1.)	Initial purchase	Jan 10, 2020	10.76%	141.8	160	22,688	0.00551	$125	
2.)	Small add to position?	2020 or 2021?	13%?	41.9	180	7,542	0.00551	$42	
3.)	Convertible debentures (3%)	June 2022		208.0	130	27,040	0.00277	$75	
	Partly converted Feb 29, 2024 (110 m)		19.4%						
	Remainder converted Jan 24, 2025 (98.125 m)		24.3%						
4.)	Rights offering	July 2024	24.3%	36.5	160	5832	0.00333	$19	
	Total		**24.3%**	**428.2**			**Rough total cost**	**$261**	
	Stock split 10 for 1	Oct 2024		4,282					
								MV	
	Market Value	**May 24, 2025**	**24.3%**	**4,282**	**21.4**	**91,635**	**0.00334**	**$306**	
	Estimate of the total increase in the value of Fairfax's investment in JKH since inception							**$45**	**17%**

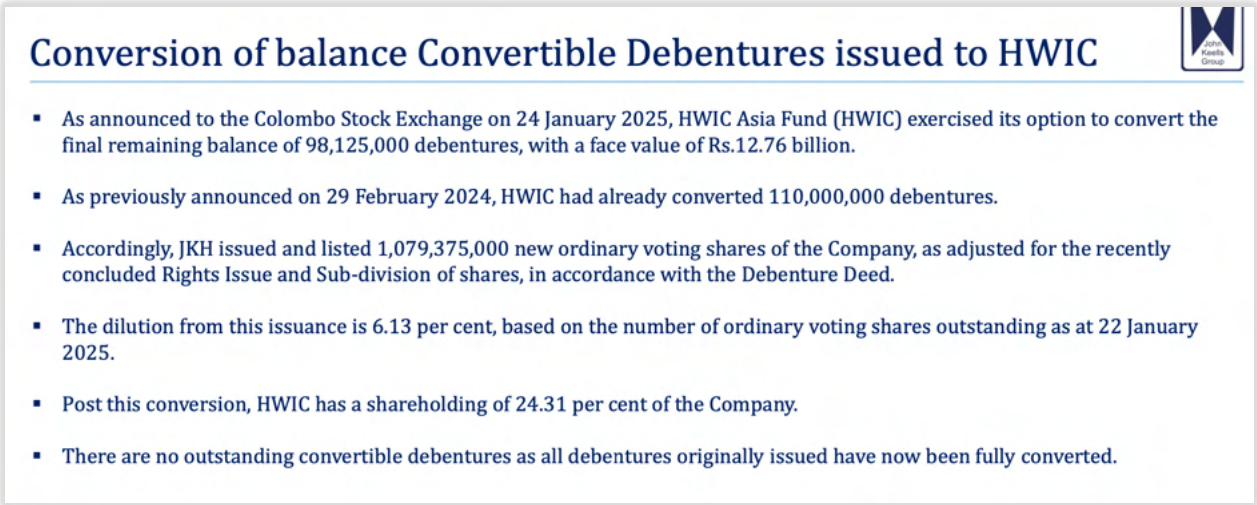
Comments from Prem about John Keells from Fairfax's 2024AR.

"Led by its outstanding Chairman and CEO Krishan Balendra, John Keells Holdings (JKH) is the largest listed conglomerate with over 150 years of history in Sri Lanka, with a significant presence and great record in leisure, consumer foods, retail, transportation, property and financial services and a great long-term record. In the middle of the external crisis faced by Sri Lanka, the company raised $75 million in equity capital, entirely provided by Fairfax in the form of convertible debentures, to fund the West Container terminal in the port of Colombo. Its construction has progressed well, and the first phase of operation is expected to commence in March 2025. In

2024, JKH raised $80 million through a rights issue for LKR 160 per share to fund the completion of the City of Dreams Sri Lanka (casino resorts). JKH is developing the resort in strategic partnership with Melco Resorts & Entertainment, a Hong Kong based gaming and entertainment company, the casino resort is expected to commence in mid-2025. Fairfax participated in the rights issue to the extent of its entitlement. Post conversion of the debentures in January 2025, Fairfax's shareholding increased to 24.5%, making it the largest shareholder of the company. The Sri Lankan economy appears to have stabilized after severe macroeconomic turbulence with a GDP growth outlook of approximately 3.5% in 2025, primarily driven by the revival of tourism. External debt restructuring, IMF funding, and financial assistance from India have helped Sri Lanka come out of the crisis and rebuild its foreign exchange reserve, providing a much-needed buffer against external shocks. Both the Sri Lankan economy and JKH are poised to perform well going forward. Both the currency and the underlying stock have appreciated considerably since our investment. Fairfax is currently carrying the investment at $282 million against its market value of $331 million."

Prem Watsa – Fairfax 2024AR

At February 28, 2025, Fairfax owned 24.31% of John Keells (from the corporate presentation linked above).



Quess Corporation – QUESS.BO

July 22, 2025

Quess Corporation split into three companies at the end of Q1-2025: Quess, Digitide and Bluspring. The three companies began trading on stock exchanges on April 15, 2025.

How have the stocks of the individual companies performed YTD-2025?

At July 22, 2025, the MV of the three companies is up about $3 million (from where Quess, as a stand-alone company, was valued at December 31, 2024).

Fairfax: Performance of MV of Quess				Quarterly Change		Shares	Exchange
July 22, 2025	Stock Price		MV of	in Market Value		Owned	Rate
million US$	INR	US$	Position	$ m	%	by FFH	
Dec 31, 2024	₹ 661.90	$7.73	$396	n/a	n/a	51.20	0.0117
Mar 31, 2025	₹ 651.60	$7.62	$390	-$6	-1%	51.20	0.0117
Quess (1)							
Apr 15, 2025	₹ 310.55	$3.63	$186	n/a	n/a	51.20	0.0117
June 30, 2025	₹ 301.95	$3.52	$180	-$6	-3%	51.20	0.0117
July 22, 2025	₹ 312.70	$3.62	$185	$5	3%	51.20	0.0116
Digitide (1)							
Apr 15, 2025	₹ 232.80	$2.72	$139	n/a	n/a	51.20	0.0117
June 30, 2025	₹ 196.70	$2.30	$118	-$22	-16%	51.20	0.0117
July 22, 2025	₹ 268.00	$3.10	$159	$41	35%	51.20	0.0116
Bluspring (1)							
Apr 15, 2025	₹ 82.70	$0.97	$50	n/a	n/a	51.20	0.0117
June 30, 2025	₹ 76.10	$0.89	$45	-$4	-8%	51.20	0.0117
July 22, 2025	₹ 92.38	$1.07	$55	$9	20%	51.20	0.0116
Total (Quess+Digitide+Bluspring)							
Apr 15, 2025			$375				
June 30, 2025			$343				
July 22, 2025			$399				
Total Increase in MV - 2025YTD (2)				$3	1%		
Increase in MV per FFH share - 2025YTD (2)				$0		21.7	

(1) On March 15, 2025, Quess was split into 3 companies (Quess, Digitide, Bluspring)
(2) Quess/Digitide/Bluspring are associate holdings (equity accounted). As a result, the change in MV is **not** captured in Fairfax's reported results (EPS, BV or ROE).

Quess Corp provides services in workforce management, operating asset management, and global technology solutions. It is based in India and is a publicly traded company.

At December 31, 2024, Fairfax owned 34% of Quess.

- Carrying value = $425 million
- Market value of $382 million (at March 31, 2025).

Quess is a massive company. It has been growing rapidly - in many different business verticals - over the past decade. In 1H-2025, Quess is planning to split into 3 separate companies. This sounds similar to what IIFL did in 2019 (it ended up being a great decision for IIFL).

Corporate website: https://www.quesscorp.com/company-profile/

Corporate Presentation:
https://www.quesscorp.com/wp-content/uploads/2022/11/Quess-Corp-Deck_Q2FY25.pdf

Company description: "Established in Bengaluru in 2007, Quess Corp Limited (BSE: 539978, NSE: QUESS) is India's leading business services provider - that leverages its extensive domain knowledge and future-ready digital platforms to drive client productivity through outsourced solutions."

"Quess Corp Limited is India's largest and a global leader in Staffing and Workforce Solutions, empowering businesses to enhance productivity through our deep domain expertise and future-ready workforce though our AI driven digital platforms."

"Quess boasts a 500,000 - strong workforce across 8 countries, serving 3,000+ clients worldwide. In just 17 years, we've grown from a start-up to an industry powerhouse, driving transformative impact for businesses globally."

Comments from Prem about Quess Corporation from Fairfax's 2024AR.

Quess, spun off from Thomas Cook in 2019 at essentially a zero cost to us, is India's largest domestic private-sector employer, with a workforce exceeding 600,000. When Founder Ajit Isaac joined, the company had just over 60,000 employees. Today, Quess has evolved into the country's leading integrated business services provider, with a strong pan-India presence and a growing footprint across North America, APAC, and the Middle East. Serving over 3,000 clients globally, Quess continues to drive exceptional growth in its core business. Revenue from operations grew 9% to $2.44 billion and pre-tax profit grew by 59% to $49 million. Quess is incubating certain product-led businesses, on which it incurred a loss of about a $4 million during the year, down from a $9-million loss during 2023. Quess's business model benefits from strong economic growth in India. Under the leadership of chairman and founder Ajit Isaac and its long-serving senior management team, Quess continues to consolidate its growing position in the market. Better times are ahead for Quess as it moves forward with its plan to demerge into three separate entities, a significant strategic initiative announced by Quess in February 2024 and expected to be completed in mid-2025.While Quess is the market leader in its core workforce management business, each of the demerged entities will be a market-leading player in its own niche. We expect that this strategic initiative will benefit all shareholders in the years to come. *Prem Watsa – Fairfax 2024AR*

Waterous Energy Fund III – Partnering with Adam Waterous in the Canadian oil patch

A good writeup on Strathcona Resources from Bridgington Holdings. Over the past 7 years, WEF has built Strathcona into the 5th largest oil company in Canada.

Strathcona Resources: Discipline in an undisciplined sector

"Strathcona Resources (TSX: SCR) is an outlier in Canada's energy patch — a top-five oil producer built through quiet, disciplined consolidation at a time when much of the industry was still grappling with the hangover of prior cycles. The company's strategy reflects the private equity roots of its architect, Adam Waterous, who has prioritized long-life reserves, capital efficiency, and per-share value creation over volume growth or market applause. With backing from Prem Watsa's Fairfax Financial and a heavily aligned insider base, Strathcona is quietly positioning itself as a durable compounding machine in an industry that rarely rewards patience."

- https://substack.com/home/post/p-160284024

Waterous Energy Fund (WEF) is focussed on consolidating the Canadian oil patch.

At December 31, 2024, Fairfax ownership position in Waterous Energy Fund III was:

- Carrying value = $218 million
- Market value = $218million

Fairfax's investment in WEF is set to significantly expand in the coming year(s) – see Prem's comments below.

Corporate website: https://waterous.com/#!home

Company description: "We're not venture capitalists, we're value investors."

"Founded in 2017, Waterous Energy Fund (WEF) is a Calgary-based private equity firm pursuing investments in the Canadian oil and gas sector. WEF has closed on over $3 billion in capital commitments across five distinct fundraises since its inception, positioning WEF as Canada's largest oil and gas private equity manager."

"In contrast to the traditional growth equity and venture capital approach towards investing in oil and gas private equity, WEF pursues a value-based investment strategy, seeking to invest in established businesses with top-quality assets that 'work' today. Rather than having a large portfolio of smaller companies, we believe a highly concentrated portfolio of scaled businesses enhances the margin of safety in investing in the Canadian oil and gas sector."

Comments from Prem about Waterous Energy Fund from Fairfax's 2024AR.

We met Adam Waterous and the team at Waterous Energy Fund ("WEF") in 2018. After a storied 27-year career in energy in Calgary, Adam was raising money for a fund to invest in and consolidate sub-scale, long life oil and gas businesses and assets in Canada. We were impressed by Adam's focus on long term returns on capital. The WEF team had extensive experience in investing in oil and gas and Adam had built Waterous & Co, starting in 1991, into the largest oil and gas M&A firm in the world before selling it to Scotiabank in 2005. We invested $129 million which is currently valued at approximately $290 million through a stake in publicly traded Strathcona Resources. WEF built this company from scratch over 7 years into Canada's 5th largest oil company producing close to 200,000 barrels per day of long life, low cost, very profitable oil. We then committed another $750 million to WEF's next fund. The WEF team has already deployed a total from the fund of $323 million for a controlling stake in Greenfire Resources, a publicly traded oil company located in the Athabasca region of Canada. WEF's latest investment is another business with long life (even longer than Strathcona!), low decline assets producing approximately 20,000 barrels per day that is Canada's 11th largest oil company by proved plus probable reserves. In every respect, Adam has proven an outstanding Fairfax partner. *Prem Watsa – Fairfax 2024AR*

Common Stocks - Consolidated

- **AGT Food and Ingredients**
- **Dexterra – DXT.TO**
- **Fairfax India – FIH-U.TO**
- **Grivalia Hospitality**
- **Meadow Foods**
- **Peak Achievement**
- **Recipe Unlimited**
- **Sleep Country**
- **Thomas Cook India (and Sterling Resorts) – THOMASCOOK.BO**

Fairfax: Equity Portfolio: Split by Accounting Treatment		
	Ownership	**Comments**
A.) Mark to market	Own < 20%	
B.) Associates	Own 20 to 50%	Significant infl. but not control
C.) Consolidated	Own > 50%	Control

AGT Food and Ingredients – The Lentil King and Entrepreneur Extraordinaire

On April 14, 2026, Mr. Murad Al-Katib, President and Chief Executive Officer, AGT Food and Ingredients, was the afternoon keynote speaker at the Ben Graham Centre for Value Investing's 2026 Value Investing Conference in Toronto, Canada. Mr. Al-Katib discussed the topic, "Global Food Security – A Compelling, Defensive, and Long-Term Value Investing Thematic".

Click the link below to watch the 30 minute presentation.

- https://youtu.be/UStENHFIw9U?si=19qHdR-ckkjeA3xT

AGT Completes IPO

March 9, 2026

Fairfax did two things concurrently with the AGT IPO:

- Converted sponsor notes to equity = C$340M = US$249M
- IPO - Private Placement = $200M = US$146M

This is a significant equity investment for Fairfax. Of course, they understand the investment very well (having owned it since 2018).

The market value of Fairfax's investment in AGT is US$571M, making it (about) Fairfax's 10th largest equity holding. But at ~2% of the total equity portfolio, it is a small position.

This will be an interesting position to monitor in the coming year. The IPO did not go well. What was the problem? Here are some guesses:

1. AGT is a business in transition - from a commodity to more of a packed goods business.
2. There has been a lot of change happening under the hood at AGT. They had a lot of debt. This has been eliminated (Fairfax converting their sponsor notes to equity, the IPO and private placement with Fairfax).
3. Reputation - AGT. AGT was a terrible investment the last time it was public. Why would they get the benefit of the doubt now?
4. Reputation - Fairfax. The last two take public investments Fairfax sponsored were Farmers Edge and Boat Rocker. Both were train wrecks for minority shareholders. Why would Fairfax get the benefit of the doubt now?

AGT is important. Is it an example of 'old Fairfax'? Where minority shareholders lose a bundle? Or does it become an example of 'new Fairfax'? Where minority shareholders actually do well when they partner with Fairfax on an investment? I am betting on the latter (I bought a starter position in AGT on Friday).

Fairfax needs to continue to earn back the trust of investors (yes, it remains a work in progress). It has been doing all the right things for the past 5 years. In the coming years, the AGT IPO will provide another important data point.

Fairfax: AGT Food & Ingredients - Share Count Post IPO

March 9, 2026	Shares	Amount (C$)		(US$)
Fairfax	**m**	**Per share**	**Total**	**Total**
Legacy Equity	13.95			
Sponsor Notes Conversion	15.10	$22.50	$340	$249
IPO - Private Placement	8.70	$23.00	$200	$146
Fairfax Total	**37.75**	**55.8%**		
Total Shares	**67.65**			
FFH - Market Value (Mar 9)	37.75	$20.65	$779	$571

AGT IPO - A World of Opportunity

February 6, 2026

Ok. Here is my first take on the AGT IPO.

Prospectus
https://www.sedarplus.ca/csa-party/records/document.html?id=4637fac564261b84ab61c4713f6f4c4df821dcfc0d38162f90a331af7f4c4d2a

AGT has been a bit of a mystery holding since Fairfax took it private in 2018. The company has been busy transforming its business (significantly reducing the volatility in earnings). In 2025 it divested non-core rail assets. With the IPO it significantly deleverages the balance sheet.

AGT is another example of what a good partner Fairfax is. Patient. Supportive. Demanding - in the right sort of way. The goal at Fairfax is to get the company in a position to succeed. AGT looks like mission accomplished. The company has a dynamic founder/CEO. Post IPO it will have a strong balance sheet. The company is profitable, with growth funded from internal cash flow.
Pre-2018 version of AGT was 'old Fairfax.' It was not positioned to success as a public company: volatile earnings with a leveraged balance sheet - what could possibly go wrong? 2026 (post IPO) version of AGT is 'new Fairfax.' This is another example of how much Fairfax has improved its investment framework over the past 8 or so years (from the 2017 and earlier period). The difference is stark.

AGT is also further proof that Fairfax is largely done fixing past mistakes. It has been a long road (8 years) for Fairfax. Hard work. Tough decisions. Lots of write downs along the way.

AGT is led by a very dynamic and entrepreneurial CEO, Murad Al-Katib. AGT will be an interesting company to watch moving forward - quite literally, the company has a world of opportunity.

All numbers are C$ unless indicated otherwise.

1.) Share count - Post-IPO Assumptions

- $28 share price (mid-point of $26 - $30 offer price)
- Over-allotment option: not exercised (to keep the analysis simple)

AGT Food & Ingred: Proposed IPO		
Feb 6, 2026	Shares	Ownership
Shareholder	**m**	**%**
Fairfax	29.050	52.2%
Cofounders:		
Murad Al-Katib	0.764	1.4%
Huseyin Arslan	5.861	10.5%
OMERS	2.187	3.9%
Employees	1.339	2.4%
Public Shareholders	16.429	29.5%
Total	**55.630**	**100.0%**

2.) Capital Structure Transformation

IPO materially reshapes AGT's balance sheet:

- Fairfax exercises warrants, eliminating Sponsor Notes.
- IPO proceeds of ~$425M are used to pay down Prior Bank Facilities

Post IPO impact:

- Long term debt falls sharply from ~$1.0B to ~$272M.
- Annual finance expense declines by $43.7M.
- Equity increases from ~$283M to ~$1.6B

The IPO puts AGT in a very strong position moving forward as a publicly traded company.

Total Capitalization: Pre and Post IPO			
Feb 6, 2026	Actual	Post IPO	
	Sept 30	As	
C$	**2025**	**Ajusted**	**Comments**
Cash	$41.0	$41.0	
Prior Bank Facilities	$635.8	$0.0	
Sponsor Notes	$317.3	$0.0	Fairfax warrants exercise - repay sponsor notes
Long-term debt - other	$19.7	$19.7	
Bank Facilities		$210.8	IPO proceeds ($425m) - pay down bank facilities
Total long-term debt	**$1,013.9**	**$271.5**	
Total equity	$283.6	$1,558.0	
Total capitalization	**$1,297.5**	**$1,829.5**	

3.) Fairfax's Ownership Stake Post-IPO

Pre-IPO estimate: ~$526M?

- Equity: $186M? (65.7% of $283.6M?)
- Sponsor Notes/Warrants: $340 million

Post-IPO

- Market value: $813M, or US$595M
- Ownership: 52.2% (retains control)

At roughly US$600M in market value, AGT would rank around the ~10th largest equity holding within Fairfax's equity portfolio.

AGT Food & Ingred: Proposed IPO				
Feb 6, 2026		Price		
	Shares	Assumption	Market Cap	
	m	C$	C$ m	US$ m
Market Cap	55.63	$28.00	$1,558	$1,140
MV of Fairfax Stake	29.05	$28.00	$813	$595

4.) Potential Dividend Framework

Assume a dividend of $0.80/share:

- Yield: ~2.9%
- Total annual cash cost: ~$45M

Notably, this is approximately equal to the reduction in annual finance expense from deleveraging, suggesting a possible framework for a sustainable initial dividend.

Estimate of Dividend			
		Dividend	
Dividend Yield	$28.00	$0.80	2.9%
Total Payout	55.63	$0.80	$45

AGT is a sleeper holding for Fairfax. It is a private company. As a result, there is little financial information available.

Corporate Website: https://www.agtfoods.com

Overview of Company (3-minute video): https://www.agtfoods.com/about

Company Description: "AGT Food and Ingredients is one of the largest suppliers of value-added pulses, staple foods and food ingredients in the world. We buy lentils, peas, beans, chickpeas, durum wheat and canola from farmers around our 45+ facilities located in the best pulse growing regions in Canada, the United States, Türkiye, Australia and South Africa as well as offices in the United Kingdom, Europe, India, Central Asia and China and ship our products to over 120 countries around the globe. We create value for producers, quality products for our customers and growth for the global food industry."

Odd Lots Podcast: What The 'Lentil King of Saskatchewan' Knows About World Trade

Date: May 2025
Host: Joe Weisenthal and Tracy Alloway

Podcast Link: https://youtu.be/iWi_xyBzA3E?si=6iAKbdVeTDDD69Fr

Description: We don't know what the end state for the tariffs are going to be... Of course, some parts of the economy are always subject to changing rules around subsidies and tariffs, and that's particularly true in agriculture. On this episode of the podcast we speak with Murad Al-Katib, the President and CEO of AGT Foods and Ingredients. He is credited as being a driving force in turning the Canadian Province into a powerhouse of chickpea and lentil exports all around the world. He explains to us why he saw an opportunity in this space, why it's boomed, how the global trade and supply chain of these plants work, and how his company navigates perpetual shifts in agriculture policy around the world.

AGT's business appears to have been steadily improving since Fairfax took it private in 2019. Strategically, AGT has been focussed on building out its packaged goods business (higher margin). EBITDA has increased from C$65 million in 2019 to C$180 million in 2024.

AGT - Select Financial Information

	Fairfax Ownership	Sales C$ b	EBITDA C$ m
2019			$65
2022		$2.8	$150
2023	59.6%		$160
2024	65.7%	+$3.0	$180

Comments from Prem about AGT from Fairfax's 2024AR.

AGT, run by CEO Murad Al-Katib with his Executive Chairman Huseyin Arslan, had another strong year in 2024, with EBITDA of approximately Cdn$180 million (up from Cdn$65 million at the time of the take private transaction in 2019). The company has successfully transformed the business over the past several years. It has a vertically integrated supply chain with a growing higher-margin Packaged Foods business and customer base. In early 2025, AGT completed another important step in their transformation by selling its Canadian rail and infrastructure assets for proceeds of Cdn$192 million. The deal provides AGT with the use of the rail assets under a long-term supply agreement. The sale proceeds will be used primarily for debt reduction and optimization of the company's capital structure. These developments have led to stronger free cash flow and value creation. AGT's global pulse sourcing and processing capability is also expected to become increasingly valuable as the total addressable market for plant-based protein expands. Fairfax's 66% stake in AGT is currently carried at an enterprise-to-EBITDA ratio of 6x. *Prem Watsa – Fairfax 2024AR*

Comments on the privatization of AGT from Fairfax's 2019AR.

Privatization of AGT Food and Ingredients Inc.

On April 17, 2019 AGT Food & Ingredients Inc. ("AGT") completed a management-led privatization for Cdn$18.00 per common share. The buying group, comprised of the company, AGT management and other co-investors, acquired through a newly formed subsidiary of the company ("Purchase Co.") all AGT common shares not already owned by the buying group for cash consideration of $226.5 (Cdn$301.8), resulting in the company acquiring a 69.9% controlling equity interest in AGT upon closing and effectively settling the company's pre-existing interests in AGT's preferred shares and warrants at fair value.

Murad Al-Katib, President and Chief Executive Officer - AGT Food and Ingredients Inc.

On September 19, 2023, Murad gave a 75-minute talk to his Alma Mater, Edwards School of Business in Saskatoon, Saskatchewan. Click the link to watch the YouTube video:

https://youtu.be/DzE9ypecdI8?si=cxvsU3EeXoXGzELc

Dexterra – DXT.TO

January 19, 2026

Recent Developments

Dexterra's share price has continued to surge as we enter 2026.

- Increase in market value: +$36 million
- Percentage gain: +13.4%

Fairfax: YTD Total Return on Dexterra Investment				Shares
January 19, 2025	Stock	MV of Position		Owned
Market Value	Price (C$)	C$	US$ (M)	by FFH
Dec 31, 2025	$11.64	$365	266	31.40
Jan 19, 2026	$13.35	$419	302	31.40
Increase in Market Value			$36	13.4%

Introduction

Dexterra is emerging as a compelling example of Fairfax's long-term, value-driven investing approach. Prem Watsa's commentary from Fairfax's 2024 Annual Report provides an excellent overview of the company and its transformation.

> Dexterra is on track to achieve its vision of becoming a leader in delivering quality solutions to create, manage and operate infrastructure across North America. Mark Becker and the team made significant progress in 2024. Dexterra delivered strong profitability, free cash flow and organic growth from continuing operations. The company also closed an important U.S. acquisition in the facilities management space and sold its modular business consistent with its capital light philosophy. The company has reorganized the existing business from an operating and reporting perspective into two segments – support services and asset-based services. This change provides a clear strategic direction for the future. Dexterra enters 2025 with good prospects, a strong balance sheet and debt well under 1x EBITDA. It has the financial flexibility to continue to scale the support services business through organic growth and strategic, niche acquisitions. Dexterra is carried on our balance sheet at $97 million ($3.08 per share), which is significantly less than the market value of $170 million or $5.42 per share (Cdn$7.80). Dexterra has paid Cdn$49 million in dividends to Fairfax since our initial investment in 2018. *Prem Watsa – Fairfax 2024*

This commentary highlights the central themes driving Dexterra's business:

- Disciplined capital allocation
- A shift toward asset-light services
- A clear strategic focus.

Fairfax's Investment Snapshot

As of December 31, 2025:

- Market value of Fairfax's stake: ~$266 million
- Portfolio weight: ~1% of Fairfax's ~$26.7 billion equity portfolio
- Portfolio rank: Fairfax's 20th largest equity holding

Fairfax owns 50.9% of Dexterra. As a result, Dexterra's financial results are fully consolidated in Fairfax's reporting.

Management Update

Dexterra's most recent investor presentation (January 2026) provides a detailed overview of its strategy and operating progress:

https://ir.dexterra.com/wp-content/uploads/2026/01/Investor-Presentation_January-2026.pdf

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2025 Performance: How Has Fairfax's Investment Done?

Dexterra delivered an exceptional year in 2025:

- Market value increase: +$96 million
- Dividends received: +$9 million
- Total value creation: +$104 million
- Return: +61%

Fairfax: 1-Yr Total Return on Dexterra Investment				Shares
Dec 31, 2025	Stock	MV of Position		Owned
Market Value	Price (C$)	C$	US$ (M)	by FFH
Dec 31, 2024	$7.80	$245	171	31.40
Dec 31, 2025	$11.64	$365	266	31.40
Increase in Market Value			$96	
Dividends	$0.375	$12	$9	31.4
Total Return in 2025			$104	61%
	C$	US$		
Carrying Value (Dec 31, 2024)	$4.44	$3.09	$97	
Excess of FV (MV) over CV (1)	8.5%		$169	
(1) CV is understated; needs to be updated when 2025AR is released.				

Excess of Fair Value over Carrying Value

A familiar pattern continues to play out inside Fairfax's portfolio:

- Market value = $266 million (Dec 31, 2025)
- Carrying value = $97 million (Dec 31, 2024)
- Excess of FV over CV = $169 million

My guess is Fairfax's carrying value will not increase much for Dexterra when 2025 results are reported. Much of the value creation that happened at Dexterra does not appear in Fairfax's accounting results. It is just another example of hidden value that is building quietly inside Fairfax's equity portfolio.

Dividend

- Quarterly dividend: C$0.10 per share
- Annual dividend: C$0.40
- Yield on carrying value: 8.5%

In addition to capital appreciation, Fairfax continues to receive meaningful cash returns from this investment.

A Short History

Fairfax's investment in Dexterra has been an interesting – and at times bumpy – journey.

2018 – Carillion Canada

Fairfax acquired Carillion Canada out of bankruptcy after the collapse of its UK parent. The Canadian operations were fundamentally sound. Fairfax paid roughly 5x free cash flow — a classic distressed-value acquisition.

2020 – Horizon North Reverse Takeover

Dexterra acquired Horizon North Logistics via a reverse takeover. Fairfax owned 49% of the combined company. The deal closed in May 2020 — right in the teeth of Covid.

At the time, then-CEO John MacCuish set ambitious targets:

- C$1 billion in revenue
- C$100 million in EBITDA
- Timeline: "in the next few years"

Challenges (2020–2023)

Several headwinds weighed on performance:

- Covid crushed demand across both legacy businesses
- Inflation in 2022 squeezed margins before contracts could be repriced
- A strategic misstep into modular housing

The modular business was ultimately sold in 2024 — a necessary reset.

Turning the Corner (2024-2025)

The current management team has stabilized operations and refocused the business.

Key developments:

- Exit from capital-intensive modular housing
- Reorganization into two clear operating segments
- Entry into the U.S. market
- Strong balance sheet with leverage under 1x EBITDA

The expansion into the U.S. significantly lengthens Dexterra's growth runway.

Market Validation

Investors are taking notice. Dexterra shares are trading at all-time highs.

Fairfax India – FIH-U.TO

December 31, 2025

Fairfax India Holdings Corporation is an investment holding company publicly traded on the Toronto Stock Exchange whose investment objective is to achieve long-term capital appreciation by investing in public and private equity securities and debt instruments in India.

- Fairfax India was founded in 2014.
- Fairfax Financial is the controlling shareholder of Fairfax India.
- Investments are centrally managed by Hamblin Watsa Investment Counsel Ltd., a wholly owned subsidiary of Fairfax Financial.
- Fairbridge Capital Private Limited (www.fairbridgecapital.com), a wholly owned subsidiary of Fairfax Financial Holdings Limited, is sole advisor to Hamblin Watsa Investment Counsel Ltd. with respect to investments of Fairfax India.

Fairfax's Investment Snapshot

As of December 31, 2025:

- Market value of Fairfax's stake: ~$996 million
- Portfolio weight: ~3.7% of Fairfax's ~$26.7 billion equity portfolio
- Portfolio rank: Fairfax's 5th largest equity holding

Fairfax Financial has a 42.7% equity interest and 95.2% voting interest in Fairfax India. As a result, Fairfax India's financial results are fully consolidated in Fairfax's reporting.

Overview of Fairfax India: PowerPoint Presentation from AGM – April 9, 2025

https://www.fairfaxindia.ca/wp-content/uploads/2025/04/Fairfax_India_AGM_2025.pdf

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External Discussion/Analysis of Company

Rock & Turner (James Emmanuel): Sept 2025

https://youtu.be/TjLfQZEADo8?si=QOn016RwETBp9Xef

Fairfax India was launched in 2015. It has grown into a wonderful business for Fairfax.

- Solid collection of assets
- Very well managed
- Very good track record
- Well-positioned for the future

How much of Fairfax India does Fairfax own?

When Fairfax India was launched in 2015, Fairfax owned 28.1%. Fairfax now owns 42.7% of Fairfax India, which is an increase of more than 50% over the past 10 years. Fairfax India today is also a much larger company - common shareholders equity has increased from $1 billion at inception in 2015, to $2.8 billion at Sept 30, 2025, which is an increase of 180%. So today, Fairfax owns 50% more of a company that has increased in size by 180%.

Hidden Value

Let' get into the weeds of how Fairfax India is valued by its parent, Fairfax. This is important. And complicated, as four different metrics need to be used. It's a little like a Russian doll. (Our estimate will be rough, as we do not have 2025YE numbers for CV or BV.)

1. Carrying Value:

- Share count: 57.6 million
- Per Share: $11.79 (December 31, 2024)
- Total: $679 million

2. Market Value (Fairfax uses Fairfax India's stock price):

- Per Share: $17.29 (December 31, 2025)
- Total: $996 million

Excess of MV over CV = $317 million

3. Book Value

- Per Share: $20.72
- Total: $1,193

Excess of BV over CV = $514 million

4. Economic (intrinsic) value

Book value materially understates economic (intrinsic) value of Fairfax India.
Fairfax India's private assets are undervalued, especially its largest asset BIAL.

As a result, excess of economic (intrinsic) value over CV is likely north of $800 million.

Fairfax

Market value and carrying value

What is the market value that Fairfax uses to value its stake in Fairfax India?

To determine market value, Fairfax uses Fairfax India's stock price, which at Dec 31, 2023, was $15.20/share. This gives a total market value to Fairfax's position of $888 million.

What is the carrying value that Fairfax uses to value its stake in Fairfax India?
Carrying value is important. This is the value that finds its way into book value. And, as we know, book value is the 'holy grail' use by investors to value P/C insurance companies.

In the 2022AR, Fairfax said the carrying value for their investment in Fairfax India was $10.78/share, or $630 million (using my share count of 58.4 million).

What is the excess of market value over carrying value?

It appears Fairfax's book value is understating the market value of its stake in Fairfax India by about $250 million. (Yes, i know my dates are messed up… directionally, it appears Fairfax India's carrying value at Fairfax is low).

How Fairfax Values its ownership position in Fairfax India				
		Shares	Total	
	/ share	mn	$mn	
Market Value - Dec 31, 2023	$15.20	58.4	$888	Fairfax India's stock price
Carrying Value - Dec 31, 2022	$10.78	58.4	$630	From Fairfax's 2022AR
Excess of Market Value over Carrying Value			**$258**	

OK. Are we done? No. There is a wrinkle.

Fairfax India's stock price is a terrible measure to use to value Fairfax's stake in Fairfax India. And that is because Fairfax India's stock price trades at a severe discount to the fair value of the collection of companies that it owns.

My guess is accounting standards require Fairfax to report carrying value and market/fair value the way they do.

What should we do?

Fairfax India has very good disclosures. We should simply use Fairfax India's book value - that is the best measure of what the collection of assets they own are actually worth.

What is the value of Fairfax's stake if we use Fairfax India's book value?

Fairfax India has a book value of $20.89/share (at Sept 30, 2023), which puts the value of Fairfax's stake at $1.22 billion (using my share count of 58.4 million). It appears Fairfax's book value is understating the value of its stake in Fairfax India by about $590 million. That is much larger than our previous estimate of $250 million.

An alternative way to value Fairfax's ownership position in Fairfax India				
Closer to actual 'fair value'?		**Shares**	**Total**	
	/ share	**mn**	**$mn**	
Book Value* - Sept 30, 2023	$20.89	58.4	$1,220	From Fairfax India's Q3 Report
Carrying Value - Dec 31, 2022	$10.78	58.4	$630	From Fairfax's 2022AR
Excess of Book Value* over Carrying Value			**$590**	
* Book Value as calculated by Fairfax India				

If we use a fair value of $1.22 billion, this suggests Fairfax India is Fairfax's 4th largest holding, along with Eurobank, Poseidon and FFH-TRS. These 4 holdings represent about 40% of Fairfax's total equity exposure.

What does Prem think about Fairfax India's reported book value?

Prem thinks that Fairfax India's intrinsic value is 'much higher' than its reported book value. If Prem is right, then the value of Fairfax's stake in Fairfax India is worth even more than $1.22 billion. Below are Prem's comment from Fairfax's 2022AR:

> While the book value per share of Fairfax India is $19.11 per share, we believe the underlying intrinsic value is much higher. Given the low market price for its shares, Fairfax India has taken the opportunity in the last four years to buy back 15.1 million shares for $194 million at an average price of $12.84 per share, including the three million shares it bought in 2022 for $36 million or an average price of $12 per share.

Growth prospects

Fairfax India reported a book value of $20.89/share at Sept 30, 2023. My guess is it will be well over $21 at Dec 30, 2023. Let's assume Fairfax India grows BV/share at 10% in 2024, which would be $2.10/share.

This would put Fairfax's share of growth in BV at $123 million ($2.10/share x 58.4 million shares). This would also deliver a (very rough) high teens ROE.

Estimating Fairfax Share of Fairfax India's Growth in BV in 2024					
			Shares	**Growth**	**Rough**
FIH.U Est BV/share at December 31, 2023		$21.00	**mn**	**$ mn**	**ROE**
Growth in BV/share in 2024	10%	$2.10	58.4	$123	19%
Est Fairfax Carrying Value - Dec 31, 2022		$630			

Is 10% growth in BV/share an aggressive assumption? No, I actually think it will prove to be conservative. Why?

- BIAL is now 47% of total investments at Fairfax India. Its value has gone sideways for the past 3 years - as a result of Covid. However, the airport is beginning its next significant growth phase (as second runway and recently completed Terminal 2 ramp up). An Anchorage IPO in 2024 could unlock significant value that has been building at BIAL.
- Two other private holdings in Fairfax India also might see IPO's in 2024: NSE and SIS, which would likely unlock more value for Fairfax India.
- The remaining holdings of Fairfax India are well run companies and should continue to increase in value.

If my rough math is accurate, Fairfax's stake in Fairfax India is poised to grow in value by about $123 million in 2024. Some of this value will show up in the 'share of profit of associates' bucket. However, like the past 8 years, a large part of the value will likely not show up in Fairfax's reported results. As a result, the gap between fair value and carrying value will continue to widen.

Conclusion

Since being launched in 2015, Fairfax India has quietly been growing like a weed. It is a great example of exceptional long term value creation by the team at Fairfax/Fairfax India/Fairbridge. However, the value creation has largely not been reflected/captured in Fairfax's accounting results - especially book value.

Fairfax India is a great example of how book value at Fairfax is understated.

A short history of Fairfax's investment in Fairfax India

Fairfax India was launched in 2015. At inception, Fairfax invested a total of $300 million ($10/share) for a 28.1% ownership position. Fairfax India did a second capital raise in January 2017 (at $11.75/share) and Fairfax participated to keep its ownership position of similar size (it was 30.2% at the end of 2017. Fairfax has also received two performance fees in shares of Fairfax India (2018 and 2021). Today Fairfax owns 58.4 million shares of Fairfax India. My rough math says they paid a total of $539 million or an average of $9.23/share.

Share count at Fairfax India peaked at 152.9 million at December 31, 2018. Since that time, the share count has come down 11.2% to 135.7 million. With the stock trading well below book value, Fairfax India has been taking out shares on the cheap. Smart.

With Fairfax's share count going up and Fairfax India's share count coming down, Fairfax has increased its ownership interest in Fairfax India from 28.1% in late 2015 to 43.0 at Sept 30, 2023. That is an increase of more than 50% over the past 8 years. That is a meaningful increase.

History of Fairfax's Investments in Fairfax India

Date	Fairfax India Total Shares	Fairfax's Transaction History: Number of Shares	Cost: $/sh	Cost: $mn	Fairfax's Ownership of Fairfax India: Cumulative Shares	Cumulative %	Comments
Dec 31, 2015	106.7	30.0	$10.00	$300	30.0	28.1%	IPO @ $10/share
Dec 31, 2016	104.9			$0	30.0	28.6%	
Jan 13, 2017		12.3	$11.75	$145	42.3		Private placement at $11.75/sh
Dec 31, 2017	106.7	1.50	$11.75	$18	43.8	30.2%	Fairfax 12.34mn + OMERS = 29.7mn
Mar 9, 2018	104.9	7.7	$0.00	$0	51.5		FFH performance fee = 7.66mn shares
Dec 31, 2018	152.9			$0	51.5	33.7%	
Dec 31, 2019	152.6	0.1	$12.00	$1	51.6	33.8%	
Dec 31, 2020	149.5			$0	51.6	34.5%	
Mar 5, 2021		0.5	$0.00	$0	52.1		FFH performance fee = 546,263 shares
Aug 11, 2021	-7.0			$0			SIB = 7.046mn shares at $14.90/share
Dec 31, 2021	141.2			$0			
Feb 26, 2022		5.4	$12.00	$65	57.5	42.1%	FFH purchase at $12 (OMERS?)
Dec 31, 2022	138.3	0.9	$12.00	$11	58.4	42.2%	
Sep 30, 2023	135.7			$0	58.4	43.0%	
Total	**million**	**58.4**	**$9.23**	**$539**			

Timeless article on Fairfax India that was written in Feb 2020. It could have been written last week. Covid hit Fairfax India especially hard as an airport (BIAL) is their largest asset – by far.

Woodlock House Family Capital: Epictetus, India and Patience

https://www.woodlockhousefamilycapital.com/post/epictetus-india-and-patience

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Fairfax India: Summary of 'total existing Indian investments'

At Sept 30, 2023, Fairfax India held total investments with a fair value of $3.376 billion. If we adjust for Q4 transactions (increase in BIAL and decrease in IIFL Finance):

- BIAL (manages BLR Airport) = 47%
- All other holdings = 53%

Fairfax India: Summary of Fair Value of Holdings and Size Weightings						
US$ million	Sept 30		Q4	Adjusted		Fair Value
Investment	Fair Value		Transactions	Fair Value		of Fairfax
BIAL	$1,408	42%	$175	$1,583	47%	Share
IIFL Finance	$570	17%	-$154	$416	12%	43.0%
Sanmar	$301	9%		$301	9%	
CSB Bank	$321	10%		$321	10%	
NSE	$176	5%		$176	5%	
Other Investments	$600	18%		$600	18%	
Total Fair Value	**$3,376**			**$3,376**		**$1,452**
In Q4, Fairfax purchased 7% of BIAL and sold down its position in IIFL Finance by 27%						

Fairfax India

- Shareholders equity = $2.833 billion
- Debt = $500 million

Summary of key metrics for Fairfax India (from 2023AR)

Here is a snapshot of Fairfax India's performance since it began:

$ millions except per share amounts:	2023	2022	2021	2020	2019	2015	CAGR(1)
Book value per share	$ 21.85	$ 19.11	$ 19.65	$ 16.37	16.89	9.5	9.2%
Income	598.9	237.5	693.5	(13.0)	712.7	65.3	
Net earnings (loss)	371.8	191.4	494.5	(41.5)	516.3	40.9	
Return on equity	13.3%	7.1%	18.9%	(1.7)%	22.0%	4.0%	11.8%(2)
$ billions:							
Total assets	3.8	3.4	3.6	3.1	3.2	1.0	15.9%
Investments	3.6	3.2	3.5	3.0	3.2	1.0	15.9%
Common shareholders' equity	3.0	2.6	2.8	2.4	2.6	1.0	12.8%
Shares outstanding (millions)	135.4	138.3	141.2	149.5	152.6	106.7	

(1) Since Fairfax India's inception on January 30, 2015, when it raised $1.03 billion at $10 per share. From an initial value of $9.62 (after IPO expenses), book value per share has compounded at 9.6% annually.

(2) Simple average of the return on equity for each of the nine years.

Summary of Fairfax India's exceptional long term track record (at March 31, 2024)

- 'Total existing Indian Investments' CAGR = 10.3%
- 'Total monetized Indian Investments' CAGR = 17.8%

From Fairfax India's Q1, 2024 Interim Report, page 27.

- https://www.fairfaxindia.ca/wp-content/uploads/FIH-Q1-2024-Interim-Report-Final.pdf

Track Record

The table below provides a summary of the company's existing and monetized Indian Investments, including their compounded annualized return in U.S. dollars since the company's inception:

		March 31, 2024					
Existing Indian Investments:	**Initial investment date**	**Ownership %**	**Cash consideration [1]**	**Fair value**	**Net change**	**Cumulative interest and dividends [2]**	**Compounded annualized return [3]**
Public Indian Investments:							
Common stocks:							
IIFL Finance [4]	December 2015	15.1 %	76,239	234,187	157,948	18,716	17.0 % *
IIFL Securities [4]	December 2015	27.5 %	51,055	124,827	73,772	16,993	14.5 % *
5paisa [4]	December 2015	24.6 %	16,603	46,534	29,931	—	19.4 % *
Fairchem Organics [5]	February 2016	52.8 %	29,741	98,228	68,487	2,108	21.6 %
CSB Bank	October 2018	49.7 %	169,492	345,290	175,798	—	15.0 %
Other	May 2022	< 1.0 %	3,386	3,039	(347)	28	(5.1)%
			346,516	852,105	505,589	37,845	16.4 %
Private Indian Investments:							
Common stocks:							
NCML	August 2015	91.0 %	188,288	45,025	(143,263)	823	(16.5)%
Sanmar	April 2016	42.9 %	199,039	271,849	72,810	—	7.5 %
NSE	July 2016	0.3 %	8,018	56,701	48,683	4,505	32.3 %
Saurashtra	February 2017	51.0 %	30,018	52,659	22,641	10,884	11.3 %
BIAL	March 2017	64.0 %	902,982	1,599,973	696,991	2,241	11.1 %
IH Fund [6]	January 2019	—	12,326	11,342	(984)	5,460	5.5 %
Seven Islands	March 2019	48.5 %	83,846	149,700	65,854	6,054	13.4 %
Maxop	November 2021	67.0 %	51,448	56,766	5,318	—	5.0 %
Jaynix	February 2022	70.0 %	32,504	51,754	19,250	—	24.4 %
Other Indian Fixed Income	November 2021	—	31,408	31,503	95	1,134	4.6 %
			1,539,877	2,327,272	787,395	31,101	8.3 %
Total existing Indian Investments			1,886,393	3,179,377	1,292,984	68,946	10.3 %

Monetized Indian Investments:	**Initial investment date**	**Last sale date**	**Cash consideration [1]**	**Cash proceeds [1]**	**Cash proceeds less cash consideration**	**Cumulative interest and dividends [2]**	**Compounded annualized return [3]**
Partially monetized [7]:							
NSE	July 2016	January 2024	18,765	132,265	113,500	10,543	33.0 %
IIFL Finance [4]	December 2015	December 2023	35,711	177,324	141,613	7,467	24.9 % *
Fairchem Organics [5]	February 2016	February 2022	7,787	45,585	37,798	86	49.7 %
			62,263	355,174	292,911	18,096	29.7 %
Fully monetized:							
360 ONE (formerly IIFL Wealth) [4]	December 2015	May 2023	107,044	243,465	136,421	40,492	16.7 % *
Other	March 2018	January 2023	178,762	282,564	103,802	9,298	28.0 %
Privi Speciality [5]	August 2016	April 2021	54,975	164,895	109,920	1,985	27.1 %
Sanmar Bonds [8]	April 2016	December 2019	299,000	433,873	134,873	—	11.0 %
			639,781	1,124,797	485,016	51,775	16.6 %
Total monetized Indian Investments			702,044	1,479,971	777,927	69,871	19.2 %
** Aggregate: IIFL Finance, IIFL Securities, 5paisa and 360 ONE (formerly IIFL Wealth)*							*17.8 %*

Anchorage Infrastructure Investments Holdings

December 31, 2023

Anchorage is a subsidiary of Fairfax India (100% owned).

Fairfax India created Anchorage in 2019. Fairfax India intends to use Anchorage to grow its investments in airports and infrastructure in India. To seed the new investment, Fairfax India transferred 43.6% of its ownership in BIAL.

In 2021, Anchorage brought on its first partner. An 11.5% interest in Anchorage was sold to OMERS for $129.2 million. This transaction suggests the total value of Anchorage is $1.123 billion.

Anchorage is awaiting regulatory approval to do an IPO in India. When completed (hopefully in 2024), this transaction will provide an important update of the total value of Anchorage (and BIAL).

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Comments from Fairfax India's 2022AR:

"In June 2019, Fairfax India created a 100% owned subsidiary in India named Anchorage Infrastructure Investments Holdings (Anchorage). It is intended that this company will be Fairfax India's flagship investment vehicle for airports and other infrastructure investments in India and that all the shares it owns in Bangalore International Airport (BIAL) will eventually be transferred to Anchorage.

"In September 2021, Fairfax India, as previously agreed, transferred 43.6% out of the 54% that it owns in BIAL to Anchorage and OMERS (the pension plan for municipal employees in the Province of Ontario, Canada) invested $129.2 million to acquire from Fairfax India an 11.5% interest on a fully diluted basis in Anchorage. This resulted in OMERS indirectly owning approximately 5% of BIAL. At that time, this transaction valued 100% of BIAL at $2.6 billion.

"Fairfax India intends to complete an IPO of Anchorage, although we did not move forward on this in 2022 as we are awaiting regulatory approvals.

"Once Anchorage is listed, the proportion of the publicly listed investments in Fairfax India will increase from the current 39.2% to 79.8% of the overall portfolio." *Fairfax India 2022AR*

Comments from Fairfax India's Q3 Interim Report:

Non-controlling interests

"Net earnings attributable to non-controlling interests of $31 and $10,291 during the third quarter and first nine months of 2023 (2022 - $87 and $63) principally related to net unrealized gains on Anchorage's investment in BIAL.

"The company shall use commercially reasonable efforts to list Anchorage by way of an IPO in India, subject to regulatory approvals and market conditions on or before September 2025. If the valuation of Anchorage upon closing of the IPO is below approximately $1.1 billion (at period end exchange rates) (91.6 billion Indian rupees), then OMERS' ownership in Anchorage will increase to a maximum of 15.0% and the company's ownership in Anchorage will decrease to a minimum of 85.0% (effective ownership interest in BIAL will decrease from 57.0% at September 30, 2023 to a minimum of 50.5%). If Anchorage does not list by way of an IPO in India by September 2025, then OMERS' ownership in Anchorage will remain at 11.5%." *Fairfax India Q3 Interim Report*

Valuation and Interim Consolidated Financial Statement Impact

"On May 9, 2023 Fairfax India announced it entered into an agreement to acquire additional equity interest in BIAL through FIH Mauritius and on June 21, 2023 the company completed the acquisition of a 3.0% equity interest in BIAL for cash consideration of $75,000 (approximately 6.2 billion Indian rupees). Under the same agreement, the company has also agreed to acquire an additional 7.0% equity interest in BIAL for additional cash consideration of $175,000, subject to certain performance conditions by BIAL and other closing conditions, which are expected to be assessed in the fourth quarter of 2023.

"At September 30, 2023 the company held a 57.0% equity interest in BIAL (December 31, 2022 - 54.0%), and its internal valuation model indicated that the fair value of the company's investment in BIAL was $1,408,403 (December 31, 2022 - $1,233,747). At September 30, 2023 the company continued to hold 43.6% out of its 57.0% (December 31, 2022 - 43.6% out of its 54.0%) equity interest in BIAL through Anchorage. As a result, the company's fully-diluted equity interest in BIAL was 52.0% (December 31, 2022 - 49.0%)." *Fairfax India Q3 Interim Report*

Additional information on the aviation sector in India

GMR Airports Infrastructure Limited, publicly traded, might be a good comparable for Anchorage.

G M Rao (Chairman, GMR Group): "GMR Group operated airports, during FY 2022-23, handled a total of more than 100mn passengers (Including passengers handled at Delhi, Hyderabad, Mopa, Cebu and Medan airports). Our Indian portfolio of airport assets handled ~87mn passengers during FY 2022-23, thus forming a 26.6% market share of all India traffic."

Website: https://investor.gmrinfra.com

Bangalore International Airport Limited (BIAL)

Interview with Hari Marar, CEO of BIAL. Hari provides a good overview of BIAL and provides an update to many important aspects of the business.

New Terminals, Metro Link: Bengaluru Airport's Big Bet

https://youtu.be/qCAjOTDnJEc?si=x3-ilsUcuWYsrvp4

Bengaluru's Kempegowda International Airport is preparing for a major scale-up. With Terminal 2 expansion underway and traffic projected to cross 70 million passengers by 2030, CEO Hari Marar outlines what's next for India's third-busiest airport. In this exclusive conversation with Business Today's Karishma Asoodani, Marar addresses key issues—managing capital and debt, international traffic growth, infrastructure readiness, and regulatory clarity. He also discusses cargo leadership, metro connectivity timelines, and the roadmap for a potential second airport in Bengaluru. As India's aviation sector accelerates, can BLR emerge as the country's next big hub?

December 31, 2023

What is Fairfax's 4th largest equity holding? At December 31, 2023, with a value of about $630 million, it looks to me like it is BIAL. BIAL is owned entirely within Fairfax India so it tends to get ignored as a core holding at the Fairfax (parent) level. But the fact it is ignored does not mean it does not exist.

For good reason, Prem calls BIAL the 'crown jewel' of Fairfax's various equity holdings in India. BIAL is a very high quality asset - it is a trophy asset (very hard to secure a control position). It is well managed. And it looks exceptionally well positioned to benefit from the expected growth of the economy in India in the coming decades. So, in this post, let's shine a light on this important holding to see what we can learn.

Who is BIAL?

The best place to go to get information on BIAL is Fairfax India's web site (start with the Q3 Interim Report and the 2022 Annual Report):

- https://www.fairfaxindia.ca

Here is how Fairfax India described BIAL in their Q3, 2023 Interim Report:

"Bangalore International Airport Limited ("BIAL") is a private company located in Bengaluru, India. BIAL, under a concession agreement with the Government of India until the year 2068, has the exclusive rights to carry out the development, design, financing, construction, commissioning, maintenance, operation and management of the Kempegowda International Airport Bengaluru ("KIAB") through a public-private partnership. KIAB is the first greenfield airport in India built through a public-private partnership." *Fairfax India - Q3 Interim Report*

KIAB (also known as BLR Airport) is the third largest airport in India and the largest airport in south India. Bangalore, the centre of India's high-tech industry, is known as the 'Silicon Valley of India'. KIAB was recently voted best domestic airport in India (go to the bottom of this post for a link to the article).

The History And Rise Of Bangalore International Airport

- https://simpleflying.com/bengaluru-airport-history/

A review of the fair value of the assets owned by Fairfax India

Fairfax India owns assets with a fair value at Sept 30, 2023 of $3.38 billion. In Q4, Fairfax India increased its ownership in BIAL by 7% (at a cost of $175 million) and sold down its position in IIFL Finance by 27%. Including these two recent transactions, BIAL represents about 47% of all assets in Fairfax India. BIAL is a massive holding for Fairfax India.
Fairfax owns 42.8% of Fairfax India. This puts the fair value of Fairfax's stake in Fairfax India at about $1.45 billion.

Fairfax India: Summary of Fair Value of Holdings

US$ million	Sept 30		Q4	Adjusted		Fair Value
Investment	Fair Value		Transactions	Fair Value		of Fairfax
BIAL	$1,408	42%	$175	$1,583	47%	Share
IIFL Finance	$570	17%	-$154	$416	12%	42.8%
Sanmar	$301	9%		$301	9%	
CSB Bank	$321	10%		$321	10%	
NSE	$176	5%		$176	5%	
Other Investments	$600	18%		$600	18%	
Total Fair Value	**$3,376**			**$3,376**		**$1,445**

In Q4, Fairfax purchased 7% of BIAL and sold 27% of IIFL Finance

What is the math that gets BIAL to a $631 million valuation for Fairfax?

As we mentioned earlier, Fairfax does not own BIAL directly - its position is held entirely through Fairfax India.

Estimating the total value of BIAL:

- At September 30, 2023, Fairfax India held an equity interest in BIAL of 57% with an estimated fair value of $1.408 billion. This values 100% of BIAL at $2.6 billion. In Q4, Fairfax India purchased another 7% BIAL from Siemens for $175 million; this transaction values 100% of BIAL at $2.5 billion. Given this is the most recent transaction, this is the number we will use to value Fairfax's stake.

Estimating the fair value of Fairfax's stake in BIAL:

- As of December 31, 2023, Fairfax India owned 59% of BIAL (on a fully-diluted equity basis). Fairfax owns about 42.8% of Fairfax India. Therefore, Fairfax owns about 25.25% of BIAL (59% x 42.8%), with a value of $631 million ($2.5 billion x 25.25%). This makes BIAL the 4th largest equity holding of Fairfax (after Eurobank, Poseidon and FFH-TRS).

Calculating Fairfax's Ownership Interest in BIAL			
December 31, 2023	Ownership	Value	
	%	$mn	
Estimated value of 100% of BIAL		$2,500	Using recent transaction value
Fairfax India's Fully-Diluted			
Equity Interest in BIAL	59.0%	$1,475	Does not include OMERS 5% interest
Fairfax's Equity Interest in Fairfax India	42.8%		Total from all sources
Fairfax's Equity Interest in BIAL		$631	= 25.25% of the total

From Fairfax India's Q3 interim report:

> "At September 30, 2023 the company held a 57.0% equity interest in BIAL (December 31, 2022 - 54.0%) and its internal valuation model indicated that the fair value of the company's investment in BIAL was $1,408,403 (December 31, 2022 - $1,233,747)."
>
> "At September 30, 2023 the company held 43.6% out of its 57.0% (December 31, 2022 - 43.6% out of its 54.0%) equity interest in BIAL through Anchorage. As a result, the company's fully-diluted equity interest in BIAL was 52.0% (December 31, 2022 - 49.0%). Refer to note 8 (Total Equity, under the heading Non-controlling interests) for further discussion on Anchorage."

How much did it cost Fairfax India to secure a 59% interest in BIAL?

Fairfax India made their first purchase in BIAL in 2016. Since then, they have made 5 more purchases. Over the past 8 years, Fairfax India has spent a total of $902 million for 64% of BIAL.

In 2019, Fairfax India also sold a 5% interest to OMERS for $134 million. The sale was made via Anchorage (a subsidiary of Fairfax India).

Fairfax India's fully-diluted equity position in BIAL (of 59%) cost a total of $768 million.

BIAL: Transaction Timeline							
December 31, 2023						Deal	Implied Value of
Purchase Summary				Deal	Cumulative	Price	Airport
Date		Buyer	Seller	Size	Ownership	US$mn	US$mn
2016	Mar	Fairfax India	GVK Power	33%	33%	$336	$1,018
2016		Fairfax India	Zuerich Airport	5%	38%	$49	$980
2017	Jun	Fairfax India	GVK Power	10%	48%	$200	$2,000
2018	Mar	Fairfax India	Siemens	6%	54%	$67	$1,117
2023		Fairfax India	Siemens	3%	57%	$75	$2,500
2023	Dec	Fairfax India	Siemens	7%	64%	$175	$2,500
Fairfax India - Equity Interest					64%	$902	
Sale Summary							
2019	Dec	OMERS	Fairfax India	5%	59%	$134	$2,680
Fairfax India - Fully-Diluted Equity Interest					59%	$768	

What has been the return on the 8-year investment in BIAL?

The fair value of Fairfax India's 59% stake in BIAL is about $1.475 billion. Its cost is $768 million. The simple return is about $707 million.

As reported by Fairfax India, the CAGR on this investment since inception has been 12.8% (to Sept 30, 2023).

Est of Return on 8-Year Investment in BIAL	Fairfax India Interest		Fairfax Interest
December 31, 2023			
Fair Value Estimate	%	$mn	42.8%
Value of BIAL (Dec 2023)	100%	$2,500	
Value of BIAL (Dec 2023)	59%	$1,475	$631
Cost Summary			
Fairfax India - Equity Interest	64%	$902	
Less: OMERS / Anchorage Interest	5%	$134	
Fairfax India - Fully-Diluted Equity Interest	59%	$768	$329
Total Return for Fairfax India (2016 to 2023)		$707	$303

What is the carrying value of Fairfax India at Fairfax?

This is where things get even more interesting.

At December 30, 2022, Fairfax had a carrying value for all of Fairfax India of $630 million (58.4 million shares x $10.78/share) - that is what is reflected in Fairfax's book value. (Of interest, my math says the total cost to Fairfax since late 2015 of its various investments in Fairfax India has been about $539 million. So, carrying value for Fairfax India is slightly higher than Fairfax's cost basis?

For an asset that has increased significantly in value of the past 8 years? That is something we will review in a future post.)

Carrying value significantly understates the value of Fairfax's stake in Fairfax India today.

BIAL represents about 47% of Fairfax India. This gives us a ball-park estimate for the carrying value of BIAL at Fairfax today of about $300 million ($630 million x 47%).

Summary: Fairfax's 25.25% interest in BIAL has a fair value of about $630 million and a carrying value of about $300 million. That is a significant difference. And as the value of BIAL grows in the coming years, that difference will likely grow even larger.

The very low carrying value of Fairfax India (including BIAL), is one good example of how the book value of Fairfax today is significantly understated.

Management

In 2017, Fairfax India paid up to get a controlling position in BIAL. They quickly overhauled management and installed Hari Marar as Managing Director and CEO. BIAL is exceptionally well managed. BIAL is a great example of the strong management team at Fairfax India.

Since taking over in 2017, the management team at BIAL has done an exceptional job. See 'recent news' articles below for some current examples.

From Fairfax India's 2017AR:

> "In July 2017 Fairfax India acquired the final 10% of BIAL owned by GVK for $200 million, the higher price being justified by this purchase enabling Fairfax India and the other remaining shareholders to reconstitute BIAL's Board, to appoint the best qualified person as BIAL's CEO, and generally to allow it to be managed according to Fairfax India's standards of corporate governance and guiding principles.
>
> "Subsequently, three new directors with expertise in airport and airline management and finance were appointed to the Board of BIAL, and Hari Marar, the former COO of BIAL, was appointed as its new Managing Director and CEO."

Conclusion

BIAL has been a solid investment for Fairfax India. Over the past 8 years, it has grown into the 4th largest equity holding of Fairfax. It has a carrying value that is less than half of its fair value.

BIAL is a very high quality asset. It is also exceptionally well managed. It is also perfectly positioned to benefit from India's growth in the coming years and decades. The runway for this investment is very long.

Most importantly, Fairfax (via Fairfax India) has a control position in this very rare asset. That is almost priceless - and likely the reason Prem calls BIAL a 'crown jewel' asset for Fairfax.

Recent news on BLR Airport:

Dec 2023: Bengaluru airport - master plan with renovation of T1, new place for T3 by 2030
- https://indianexpress.com/article/cities/bangalore/bengaluru-airport-master-plan-renovation-9049746/#

Dec 2023: BLR Airport Secures 'Best Domestic Airport' Title
- https://www.bengaluruairport.com/corporate/media/news-press-releases/blr-airport-secures-best-domestic-airport-title-at-travel-leisure-india-s-best-awards-----

Dec2023: BLR Airport's Terminal 2 earns UNESCO's recognition as one of the 'World's Most Beautiful Airports'
- https://www.bengaluruairport.com/corporate/media/news-press-releases/terminal---earns-unesco-s-recognition-as-one-of-the-world-s-most-beautiful-airports-and-

Dec 2023: Bengaluru airport most profitable in India in FY23
- https://www.moneycontrol.com/news/technology/bengaluru-airport-most-profitable-in-the-country-in-fy23-ahmedabad-incurs-highest-losses-11859721.html#

Ownership structure of BIAL at December 31, 2023

BIAL Ownership Structure				
December 31, 2023				
Fairfax India Equity Interest			64%	
	Direct	20.4%		
	Anchorage	43.6%		11.5% of Anchorage is owned by OMERS
Siemens			10%	
KSIIDC			13%	Karnataka Government
AAI			13%	Airport Authority of India
Total			**100%**	
Fairfax India's Full-Diluted Equity Interest = 59%				

Fairfax open to acquiring AAI's 13% stake in Bangalore Airport: Hari Marar

- https://www.thehindubusinessline.com/economy/logistics/fairfax-open-to-acquiring-aais-13-stake-in-bangalore-airport-marar/article67466405.ece

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Prem's Letter, Fairfax 2022AR:

"**While the book value per share of Fairfax India is $19.11 per share, we believe the underlying intrinsic value is much higher**. Given the low market price for its shares, Fairfax India has taken the opportunity in the last four years to buy back 15.1 million shares for $194 million at an average price of $12.84 per share, including the three million shares it bought in 2022 for $36 million or an average price of $12 per share."

Fairfax India Q3, 2023 Interim Report: Details of BIAL and Anchorage Subsidiary

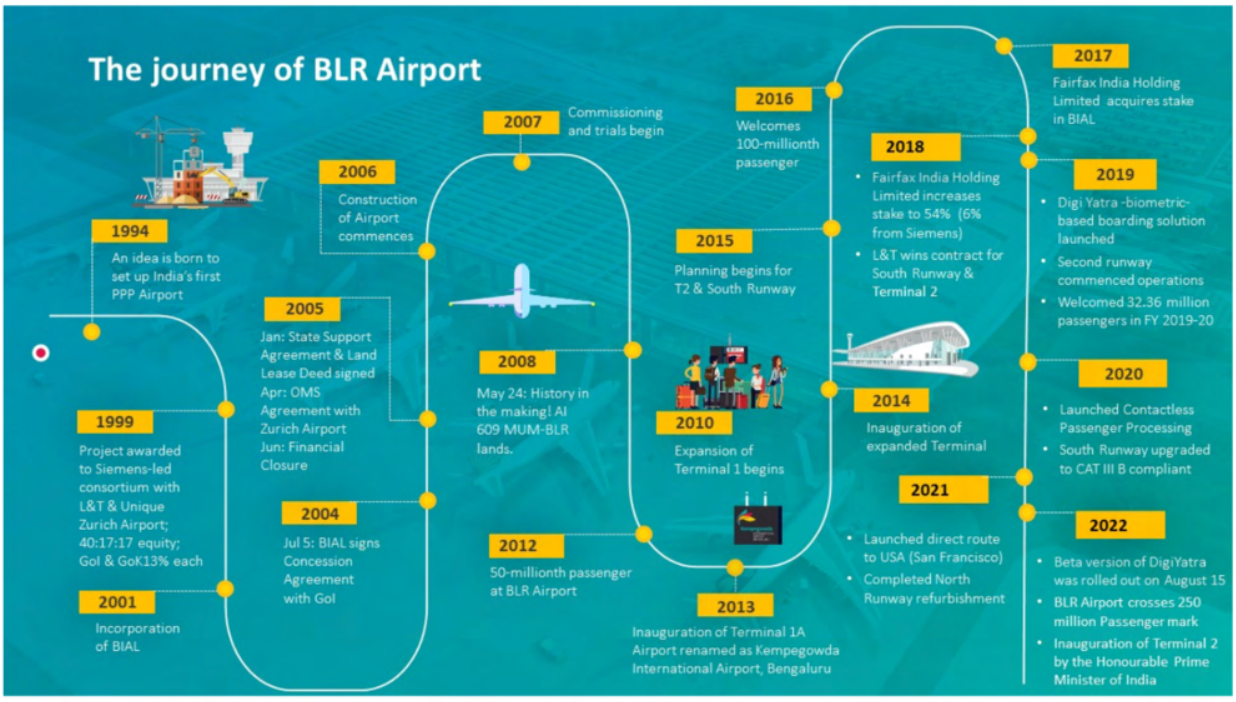
"Non-controlling Interests: In 2019 the company formed Anchorage as a wholly-owned subsidiary of FIH Mauritius, intended to provide investment related services to support the company in investing in companies, businesses and opportunities in the airport and infrastructure sectors in India. On September 16, 2021 the company transferred a 43.6% equity interest in BIAL from FIH Mauritius to Anchorage and subsequently sold 11.5% (on a fully-diluted basis) of its interest in Anchorage to OMERS for gross proceeds of $129,221 (9.5 billion Indian rupees). Upon closing of the transaction, the company's ownership in BIAL was comprised of 10.4% held through FIH Mauritius and 43.6% held through Anchorage, representing effective ownership interest of 49.0% on a fully-diluted basis.

"At September 30, 2023 the company continued to hold 43.6% out of its 57.0% (December 31, 2022 - 43.6% out of its 54.0%) equity interest in BIAL through Anchorage. As a result, the company's fully-diluted equity interest in BIAL was 52.0% (December 31, 2022 - 49.0%)."

A history of financial transactions at BIAL

		BIAL: Transaction Timeline December 2023			Transaction Price		Implied Value of	New Total Ownership Stake		
				Stake/	Rs	US$	Airport	Buyer	Seller	
Date		Buyer	Seller	Size	(crore)		US$	%	%	Comments
1999	May	KSIIDC (Karnata government)		13%	Memorandum signed: public-private parnership					
		AAI (Airport Authority of India)		13%	KSIIDC and AAI have same ownership position in Dec 2023.					
		Private Companies (TBA)		74%	See next entry for split of private companies in 2001.					
2001	Nov	Siemens		40%	Siemens lead team wins bid to build airport					
		L&T IDPL		17%	Ownership split of 74% private ownership					
		Zuerich Airport		17%						
2005	July	Construction begins								
2008	May	First flight								
2009	Nov	GVK Power	Zuerich Airport	12%	484	$96	$800	12%	5%	Flughafen Zuerich AG
2009	Dec	GVK Power	L&T Infrastruc	17%	686			29%	0%	L&T Infrastructure Development Projects
2011	Aug	GVK	Siemens	14%	614	$135	$964	43%	26%	8.6% premium to 2009 price paid
2013	Dec	Re-named Kempegowda International Airport (KIA) after Kempe Gouda, founder of Bangalor								Threat from Changi & Tatas forces premium
2013	Dec	Phase 1 expansion completed (expansion terminal called Terminal A1); increased passenger capacity to 25 million								
2016	Mar	Fairfax India	GVK Power	33%	2,202	$336	$1,018	33%	10%	GVK sold to pay down debt; closed Mar 2017
2016		Fairfax India	Zuerich Airport	5%	320	$49	$980	38%	0%	Closed Mar 2017
2017	Jun	Fairfax India	GVK Power	10%	1290	$200	$2,000	48%	0%	
With purchase Fairfax now has controlling stake in BIAL and overhauls management; explains what looks like overpay given recent transactions										
2018	Mar	Fairfax India	Siemens	6%		$67	$1,117	54%	20%	
2019	Dec	OMERS	Fairfax	5%		$134	$2,680			Position controlled by Fairfax via Anchorage
2023		Fairfax India	Siemens	3%		$75	$2,500	57%	17%	
2023	Dec	Fairfax India	Siemens	7%		$175	$2,500	64%	10%	Additional 5% controlled via Anchorage

Timeline for BLR Airport



Grivalia Hospitality

March 15, 2025

Prem's comments about Grivalia Hospitality from Fairfax's 2024AR.

Grivalia Hospitality, our 'ultra-luxury' hotel operation in Greece had a tough year in 2024.Under the leadership of George Chryssikos, the team made progress opening the 91 Athens resort in Voula but suffered from a disrupted opening season for its flagship property in Athens, One & Only Aesthesis. Nevertheless, George and his team have identified the learnings from this opening year, made the appropriate changes, and are confident that the resort will be a major success over the coming years. The good news is that tourism in Greece is booming! International tourists totaled over 36 million in 2024 – a 10% increase on 2023.George decided that, starting January 1st, Natalia Strafti will take up the reins of CEO and George will move to Executive Chairman. This move is well deserved for Natalia who has worked, with distinction, for Grivalia and its predecessor companies for the past 25 years. Our $1 billion man, George, is going nowhere and more focused than ever on making Grivalia Hospitality another successful venture. We wish them both great success in their new roles!

Prem Watsa – Fairfax 2024AR

December 2024: Grivalia's Diversified Real Estate Strategy

- Interview with Natalia Strafti, deputy CEO of Grivalia Hospitality

Click link to watch interview: https://www.hospitalityinvestor.com/investment/interview-grivalia

Description: Almost a decade ago Greek real estate investor Grivalia decided it wanted to diversify outside of its existing commercial real estate activity into hotels. The idea was to move into a new sector that had potential to grow in Greece. The focus for this new part of the business quickly became the ultra-luxury end of the spectrum. We recently caught up with Natalia Strafti, deputy CEO at Grivalia Hospitality to find out more.

June 26, 2024: Op-Ed by George Chryssikos

The Incentive for investments in Greece has never been stronger by George

https://news.gtp.gr/2024/06/26/op-ed-the-incentive-for-investments-in-greece-has-never-been-stronger-george-chryssikos-grivalia-hospitality/

May 22, 2023: News Article on Grivalia Hospitality

Grivalia Hospitality: Greek Luxury Tourism, Glamping Projects Coming Soon

https://news.gtp.gr/2023/05/22/grivalia-hospitality-greek-luxury-tourism-glamping-projects-coming-soon/

August 2, 2023

In July of 2022 Fairfax invested $194.5 million to purchase 44.9% of Grivalia Hospitality. This purchase increased Fairfax's ownership from 33.5% to 78.4%. I believe Fairfax purchased this stake from Eurobank.

"On July 5, 2022 the company increased its interest in Grivalia Hospitality S.A. ("Grivalia Hospitality") to 78.4% from 33.5% by acquiring additional shares for cash consideration of $194.6 million (€190.0 million). The company will commence consolidating Grivalia Hospitality in the third quarter of 2022. Grivalia Hospitality acquires, develops and manages hospitality real estate in Greece, Cyprus and Panama." *Fairfax Q2-2022 Earnings Release*

On December 31, 2022, what was the value of Fairfax's position in Grivalia Hospitality?

- Carrying value = $411 million
- Market value = $409 million (represents Fairfax's recent transaction valuation)

Who is Grivalia Hospitality?

"Our goal is to generate superior risk-adjusted returns for our shareholders, through targeted investments in the high-end hospitality sector. Our investments integrate disciplined acquisition criteria, value-adding investment strategies, development capabilities and excellent relationships with high-end global brands." *Grivalia Hospitality web site*

Link to company web site: https://grivaliahospitality.com

The shareholders of Grivalia Hospitality are:

- Grivalia Management Company
- Eurobank
- Fairfax (78.4%)

Why did Fairfax make this investment?

It looks to me like this was a 'bet on the jockey,' George Chryssikos. George is an expert on Greek real estate, and he has made Fairfax a great deal of money over the past decade.

Prem's comments about Grivalia Hospitality from Fairfax's 2022AR.

"Recognizing the outstanding results achieved at Grivalia Hospitality by George Chryssikos, Vice Chair of Eurobank, in 2022 we increased our ownership to 78%. Grivalia Hospitality is a leading investor in Greece's booming ultra- luxury hotel space, with three operating assets and seven under development. You will remember that George ran Grivalia Properties, a public company of which we owned 51%. Eurobank and Grivalia Properties merged in 2019 when Eurobank needed capital. The gains from Grivalia Properties and the Eurobank shares we acquired on the merger have resulted in a total gain to Fairfax of approximately $1 billion. We gratefully add George's name to Richie Boucher's from the Bank of Ireland, who was our first billion dollar man."

Prem Watsa – Fairfax 2022AR

If this is a bet on the jockey, then who is George Chryssikos?

Below is George's bio from the Grivalia Hospitality web site:

George Chryssikos (Chairman & CEO

- George Chryssikos has founded Grivalia Hospitality platform in 2015 to deploy capital in the very attractive high-end hospitality sector in Greece and abroad. The company has already invested in seven hospitality assets with an estimated value of over €0.5 bn and it is managed by Grivalia Management Company.
- George Chryssikos founded Grivalia Management Company and has an active leading and managing role. At this moment Grivalia has € 3.1 bn of assets under management and continues capital deployment in the Greek real estate sector.
- George served as Chief Executive Officer, Executive BoD member and Chairman of the Investment Committee of Grivalia Properties REIC. Together with his team, George has completed real estate transactions of over €1.2 bn in commercial and leisure real estate.
- George is currently Vice Chairman, Non-Executive Director of the BoD of Eurobank Group.
- George holds an MBA in Corporate Finance & Strategy from Columbia Business School (NY), an MSc in Engineering & Construction Management from UC Berkeley (CA) and a MEng in Civil Engineering from National Technical University of Athens. In his younger age, George was a National Champion in sailing and member of the Greek National Sailing Team for many years.

Grivalia Properties – A look into the past

To understand Grivalia Hospitality is it good to go back in time and start with Grivalia Properties.

For a historical look at Fairfax's investment in Grivalia Properties go to 'Chapter 12: Geographies' and read the two posts on Greece.

The presentation below by George Chryssikos is a good review of Grivalia Properties.

Greek Centre for Value Investing Conference – October 24, 2022

Topic: 'The Grivalia Story'

- Presenter: George Chryssikos, Vice Chairman, Eurobank Group
- View PowerPoint Presentation
- View YouTube Presentation (sorry, sound quality is terrible but if you hang in there you can learn a great deal about how George's mind works – the guy is wicked smart)

Some takeaways:

1.) On page 8 of the presentation, it states Fairfax earned a return of 24% per year from 2011-2020 on its investment in Grivalia Properties. From its initial purchase to when Grivalia Properties merged with Eurobank. Pretty good.

2.) I wonder what else Fairfax owns that we know nothing about. Prior to the Q2-2022 release, I never knew they owned a large chunk of Grivalia Hospitality.

3.) With a value of about $400 million, Grivalia Hospitality is a top 10 equity investment for Fairfax.

4.) The investment of $195 million in Grivalia Hospitality is significant:

- Take advantage of weak Euro (to US$).
- Increase exposure to real estate - considered a good inflation hedge.
- Hospitality segment - high net worth individuals (trophy properties).
- Bet on Greece – continued economic expansion.

5.) The majority of Fairfax's spending on new investments the past two years has been going to increasing positions in businesses they already own a large stake in and therefore understand well.

Meadow Foods

May 23, 2025

Fairfax made their initial investment in Meadow Foods in June 2023. In late 2024, Fairfax increased their ownership position to 93.2%.

2024 results for Meadow Foods:
- Sales = £555 million
- EBITDA = £42 million

At December 31, 2024, Meadow Foods was carried at 10x enterprise value-to-EBITDA on Fairfax's balance sheet.

Meadow Foods is a private holding for Fairfax. As a result, it is difficult to find information on the company.

From the corporate website of Meadow Foods:

> "Meadow Foods has grown over 30 years into a £550 million value-added ingredients business specialising in the dairy, confectionery, ice cream, prepared foods and plant-based industries."
>
> - https://meadowfoods.co.uk

In May of 2025, on the Corner of Berkshire & Fairfax investment forum, @nwoodman posted a thorough 28-page report on Meadow Foods. Below, we include a quote and a link where you can access a PDF copy of the report.

> "In conclusion, Fairfax liked Meadow because it ticked all the boxes: a solid, non-cyclical business with a competitive moat, run by a trusted team, available at a reasonable price, with synergy to Fairfax's food portfolio and potential to compound value. Meadow in turn benefits from Fairfax through stable ownership and access to capital/partners – a classic win-win. The fit with Fairfax's "long-hold, build value" model is perhaps best evidenced by Fairfax's quick move to increase its stake from majority to 100% within a year, indicating strong conviction that Meadow belongs firmly in the Fairfax family of companies." *@nwoodman Cof BF investment forum*
>
> - https://thecobf.com/forum/topic/16427-fairfax-stock-positions/page/104/#findComment-620488

Prem's comments about Meadow Foods from Fairfax's 2024AR.

"After acquiring a majority ownership position in 2023, we took full control of Meadow Foods in 2024. Led by its CEO Raj Tugnait, Meadow successfully navigated a challenging macro environment in 2024 to grow volumes in the higher-margin ingredients business and to take market share. The company has professionalized operations and grown sales to £555 million with a record £42 million EBITDA in 2024. We expect to leverage Raj's three decades of experience in the food sector to further scale the business in the United Kingdom and internationally. We are thrilled to partner with the management team to build Meadow for long-term success. Meadow is carried at 10x enterprise value-to-EBITDA on our balance sheet." *Prem Watsa – Fairfax 2024AR*

Details of Fairfax's increase in ownership of Meadow Foods to 93.2%.

Acquisition of additional interest in Meadow Foods Limited

"On November 29, 2024 the company increased its equity interest in Meadow Foods Limited ("Meadow Foods") to 93.2% for purchase consideration of $333.1, comprised of the company's existing equity interest in Meadow Foods with a fair value of $250.5 (£197.1, which approximated carrying value) and additional consideration of $82.6 (£65.0). The assets acquired and liabilities assumed of Meadow Foods were consolidated in the company's non-insurance companies reporting segment. Meadow Foods is a value-added milk, fats, fresh confectionery and plant-based bulk ingredients business." *Fairfax 2024AR*

Prem's comments about the initial investment in Meadow Foods from Fairfax's 2023AR.

"During 2023, we invested in a leading United Kingdom-based manufacturer of food ingredients, Meadow Foods Limited. Founded by the Chantler family, Meadow has a 30+ year history of partnering exclusively (in the U.K.) with the world's leading food manufacturers and brands such as Cadbury, Ben & Jerry's and Nestle. It provides bespoke dairy, confectionery and plant ingredients. Led by its CEO Raj Tugnait, the company and its people are trusted for their ability to solve customers' most complex food challenges, from maintaining a secure and stable supply base to creating niche ingredients at scale. Under Raj, the company has professionalized operations and grown sales to £510 million with a record £40 million EBITDA in 2023.We expect to leverage Raj's three decades of experience in the food sector to further scale the business in the United Kingdom and internationally. We are thrilled to partner with the management team and the Chantler family as we continue to build Meadow for long-term success. Meadow Foods is carried at 11x enterprise value-to-EBITDA on our balance sheet." *Prem Watsa – Fairfax 2023AR*

Peak Achievement – Scoring With Bauer Hockey & Cascade/Maverik Lacrosse

August 27, 2025

Article on Peak Achievement's debt issue and its overall business from SGB Media with comments from S&P Global Ratings.

Bauer Hockey Parent to Pay Down Term Loan with New Debt Offering

Canada-based Peak Achievement Athletics, the parent of Bauer, Cascade and Maverick hockey and lacrosse brands, plans to issue C$250 million ($179 mm) of unsecured notes due August 2033, with the proceeds used to repay a portion of its existing term loan.

https://sgbonline.com/peak-achievement-athletics-to-pay-down-term-loan-with-new-debt-offering/#:~:text="We%2520anticipate%2520that%2520Peak's%2520leverage,term%2520loan%2520due%2520December%25202027.

March 15, 2025

Prem's comments about Peak Achievement from Fairfax's 2024AR.

"In 2017, we first acquired a 43% interest in Peak Achievement with our partner Sagard Holdings (Power Corp.), led by Paul Desmarais III, for $154 million. Since our purchase, Fairfax has received $132 million in dividends. In 2024, Sagard decided to sell its interest to us for $326 million ($439 million including other minority investors). We have been very impressed with the leadership of Ed Kinnaly and his management team at Peak and look forward to a long partnership. Peak is carried on our balance sheet at 8.5x free cash flow." *Prem Watsa – Fairfax 2024AR*

Details of Fairfax's increase in ownership of Peak Achievement to 100%.

Acquisition of additional interest in Peak Achievement Athletics Inc.

On December 20, 2024 the company increased its equity interest in Peak Achievement Athletics Inc. ("Peak Achievement") to 100.0% by acquiring the 42.6% equity interest owned by Sagard Holdings Inc. and the 14.8% equity interest owned by other minority shareholders for purchase consideration of $765.0, comprised of new non-recourse borrowings of $339.0 (by a newly formed purchasing entity, which amalgamated with Peak Achievement upon close), the company's existing 42.6% equity interest in Peak Achievement with a fair value of $325.7 and cash consideration of $100.3. The assets acquired and liabilities assumed of Peak Achievement were consolidated in the company's non-insurance companies reporting segment, pursuant to which the company remeasured its existing 42.6% equity accounted investment in Peak Achievement to its fair value of $325.7 and

recorded a pre-tax gain of $203.4 in net gains on investments in the consolidated statement of earnings. Peak Achievement is engaged in the design, manufacture and distribution of performance sports equipment and related apparel and accessories for ice hockey, roller hockey and lacrosse, under brands such as Bauer Hockey, Cascade Lacrosse and Maverik Lacrosse. *Fairfax 2024AR*

November 25, 2024

On February 28, 2017, Fairfax partnered with Paul Desmarais III and his team at Sagard Holdings to purchase Performance Sports Group out of bankruptcy for total proceeds of US$575 million. The company was subsequently renamed Peak Achievement Athletics.

Performance Sports Group was a leading developer and manufacturer of sports equipment:

- Hockey - Bauer (#1 player) https://ca.bauer.com
- Baseball - Easton (#3 player)
- Lacrosse - Cascade and Maverik (combined, #1 player?) https://cascademaverik.com

Performance Sports Group completes sale of substantially all of its assets to investor group led by Sagard and Fairfax Financial - Article from Feb 27, 2017

https://www.torys.com/en/work/2016/10/52382aeb-7e85-42dd-903c-309be9bb261a

Why did Performance Sports Group go into bankruptcy?

The primary problem wasn't the business. It was the management team in place at the time - their decisions were terrible (changing their distribution strategy in Canada for Bauer and grossly overpaying for Easton are just two examples). Click the link below for details.

Behind the bankruptcy of Performance Sports Group - Article from November 10, 2016

https://www.nhbr.com/behind-the-bankruptcy-of-performance-sports-group/#:~:text=Graeme%20Roustan%2C%20who%20blames%20the,time%20to%20arrange%20a%20sale.

Details of the partnership

In 2017, Fairfax and Sagard each invested $154 million (C$204 million). Each company held a 42.6% equity interest and 50% of the voting rights in Peak. The investment was accounted for using the equity method. It was not disclosed who owned the remaining 14.8% equity position in Peak.

It is interesting that Performance Sports was purchased for total consideration of $575 million and Fairfax and Sagard only invested a total of $308 million (for their 85.2% interest).

Who is Sagard Holdings?

Sagard is a global multi-strategy alternative asset management firm active in venture capital, private equity, private credit, and real estate. https://www.sagard.com

Sagard was launched in 2002 by the Desmarais family, which controls Montreal-based financial services giant Power Corp. of Canada. The aim was to invest in entrepreneurs and support the growth of middle-market businesses.

Fairfax has built out a wonderful capital allocation platform

When deciding what to do with its $69 billion investment portfolio, Fairfax has built out an exceptionally diverse platform within the company that allows it to go to where the opportunity is at any given point in time - in public or private markets. In the case of Peak, Fairfax invested in the private market and like an alternative asset management firm.

Fairfax's partnership with Sagard is another good example of the many partnerships/relationships that Fairfax has been patiently building out over their 38 years of existence as a company. The benefits of what Fairfax has created are far reaching (future deal flow being just one example).

The key take-away is Fairfax is extremely flexible with its capital allocation framework. This should lead to better diversification (lower portfolio risk) and better total returns over time.

Today, Fairfax's capability when it comes to capital allocation (structure, expertise, partnerships) is unique in the P/C insurance industry. It has become an important sustainable competitive advantage for the company.

Back to our story.

Strengthen Easton - 2020

In October of 2020, the Easton unit of Peak was acquired by Rawlings Sporting Goods. Easton was the #3 player in baseball and Rawlings was the clear #1 player. In the deal, Peak received $65 million in cash and a 28% stake in Rawlings. Importantly, this deal was done when Covid was raging and demand for all sports equipment (baseball, hockey and lacrosse) had fallen dramatically. Peak got a timely cash infusion and ownership in a much larger, stronger baseball company.

The turnaround at Peak

The turnaround at Peak took a number of years. Covid likely stalled their transformation by a couple of years. But over time, Peak returned to profitability. This can be seen from the distributions that started to happen to the two partners, Fairfax and Sagard. Below are the numbers that Fairfax has reported over the years for its investment in Peak.

Fairfax and Peak Achievement					Share of	
	Ownership	Fair Value	Carrying Value	Dividends Paid	Profit (loss)	
2016*	38.2%	$83.0	$82.7		$0.0	
2017	42.6%	$153.5	$144.8		-$6.2	
2018	42.6%	$153.5	$128.6		-$15.1	
2019	42.6%	$163.9	$104.4		-$5.1	
2020	42.6%	$171.5	$140.2		$34.2	
2021	42.6%	$181.2	$140.5	$33.0	$13.3	
2022	42.6%	$195.3	$124.4	$21.0	$7.7	
2023	42.6%	$226.0	$129.0	$18.0	$23.3	
Q3 2024	42.6%				$52.3	YTD
Total				**$72.0**	**$104.4**	
* Performance Sports						

The sale of Rawlings stake - 2024

In Q2-2024, Peak sold its minority position in Rawlings Sporting Goods. A sale price was not disclosed. However, in Q2-2024, Sagard reported receiving a dividend of $60 million from Peak. Fairfax reported YTD September 30, 2024, share of profit of associated of $52 million, and said the elevated amount was due to the sale of Rawlings.

Fairfax takes out partner Sagard

There were rumours that Peak was being shopped. It is interesting that Fairfax ended up being the buyer.

From an article in the Globe and Mail on August 24, 2024:

"Sagard and Fairfax acquired Bauer out of bankruptcy in 2017 for US$575-million and are targeting a US$800-million exit, according to one of the sources. Bauer's EBITDA is just more than US$100-million annually, the source said."

https://www.theglobeandmail.com/business/article-ccm-bauer-true-hockey-sale/#:~:text=Sagard%20and%20Fairfax%20acquired%20Bauer,to%20one%20of%20the%20sources.

On September 30, 2024, Peak announced that Fairfax had bought out partner Sagard. The purchase will see Fairfax will double their ownership stake in Peak from 42.6% to 85.2%. Fairfax paid $325 million for Sagard's 42.6% stake. This values Peak at $763 million.

Power Corp (owner of Sagard) provided the financial details of the transaction:

"On September 30, 2024, Peak announced that Fairfax will acquire Sagard's 42.6% interest in Peak. On close of the transaction, the Corporation expects proceeds of approximately US$325 million,

and to recognize a gain in net earnings of approximately US$195 million. The transaction is expected to close in the fourth quarter of 2024, subject to customary closing conditions."

Power Corp Q3-2024 Interim Report

Why did Fairfax buy out Sagard?

Here are some thoughts:

1. Fairfax likes the management team.
2. Fairfax likes the long term return potential of the business.
3. Culture wise, Peak is a good fit for Fairfax.

The takeout of Sagard is following a very familiar playbook for Fairfax. Over the past 4 years, the majority of their capital allocation decisions has involved them buying more of stuff they already own. This is a very effective strategy for the following three reasons:

- The investment they are making falls into their circle of competence.
- They are able to value the asset well, allowing them to buy with a margin of safety.
- Growing the size of current investments allows them to concentrate in their best ideas.

This is capital allocation 101 - simple, smart and effective. The kind of capital allocation preached by Warren Buffett, Charlie Munger and Peter Lynch.

Here is what Wade Burton (President, Chief Investment Officer, Hamblin Watsa) had to say on Fairfax's Q3-2024 earnings conference call:

"We did make one significant announcement in the quarter. We bought out our main partners in Peak Achievement, an athletic wear and equipment company focused on hockey and lacrosse. It is an outstanding business operating in a highly consolidated industry, well run by Ed Kinnaly and his team, incredible track record, and we paid a fair price. We think we will make a very good return over the long run for our shareholders, and importantly, Ed runs the company very much in tune with the Fairfax culture."

"Looking back over the last two years, we've made three significant long term equity investments, one in Meadow Dairy, a dominant milk ingredients company in the U.K. that is doing very well; another in Sleep Country, a dominant mattress distributor and retailer in Canada; and now a third, Peak, a dominant sporting goods company focused on hockey and lacrosse. All immediately are or will contribute to our earnings, and we believe all will continue to contribute more and more as their businesses progress." *Wade Burton – Fairfax Q3-2024 Conference Call*

The non-insurance consolidated companies' income stream at Fairfax gets bigger

Fairfax continues to make material additions to its collection of non-insurance consolidated company holdings. In 2022, it took Recipe private. In 2023, it purchased Meadow Foods. In 2024, it took Sleep Country private. Peak was an associate holding for Fairfax. On close, Peak will become a

consolidated holding. These additions are materially growing the size of this income stream for Fairfax.

Here is what Jennifer Allen (Vice President, Chief Financial Officer) had to say on Fairfax's Q3-2024 earnings conference call:

> "As Wade noted, with our recently announced Sleep Country and Peak Achievement transactions, we expect the operating income from our non- insurance companies reporting segment will grow in the future periods, reflecting the operating income diversity these investments will add to the segment." *Jen Allen – Fairfax Q3-2024 Conference Call*

Is a sizeable investment gain coming for Fairfax at close?

Sagard is reporting that they expect to book an investment gain of $195 million when the deal closes. Perhaps this is what we also see from Fairfax. At December 30, 2023, Fairfax had a carrying value of $119 million for its 42.6% stake in Peak. Revaluing this to $325 million would result in a significant investment gain.

How has Fairfax done with their investment in Peak?

My math says Fairfax has generated a total return of about $243 million on its $154 million initial investment in Peak over the past 8 years. This is a CAGR of 12.6%.

The dividends received of $72 million is to December 30, 2023. It is likely that Fairfax has received another dividend payment from Peak in 2024 (especially given the sale of their stake in Rawlings). We will likely get an update from Fairfax when they release their 2024 annual report.

Rough est of Fairfax's return on its investment in Peak			
November 25, 2024			
2017	Initial investment in Peak	$153.5	
2024	Fair value of Peak	$325.0	
	Increase in fair value	**$171.5**	
	Dividends received (to 2023)	$72.0	
	Total return on investment	**$243.5**	**159%**
	8-Year CAGR		**12.6%**

Notes from Fairfax annual and quarterly reports:

Fairfax 2024 Q3 Report

Consolidated share of profit of associates of $609.3 in the first nine months of 2024 principally reflected share of profit of $343.7 from Eurobank, $163.0 from Poseidon and $52.3 from Peak

Achievement (principally reflecting its sale of Rawlings Sporting Goods), partially offset by share of loss of $60.1 from Sanmar Chemicals Group.

Fairfax 2023AR

Fairfax continues to jointly own Peak Achievement with our partner, Sagard Holdings. Peak's core brands are Bauer, the leading hockey brand, and Maverik, a leading lacrosse brand. Peak also owns a minority investment in Rawlings, which is the number one brand in baseball. Fairfax paid $154 million for its stake in Peak in 2017. Since that time, EBITDA has increased steadily in the hockey and lacrosse businesses, and Fairfax has received $72 million in dividends. Hockey participation growth continues post-pandemic and exciting developments such as Bauer's partnership with the new Professional Women's Hockey League are expected to drive incremental girls' participation. More to come under CEO Ed Kinnaly's leadership, with opportunities in direct-to-consumer, apparel and training. We carry Peak on our balance sheet at less than 5x free cash flow.

Fairfax 2020AR

Fairfax continues to jointly own Peak Achievement with our partner, Sagard Holdings led by Paul Desmarais III. Peak's core assets are Bauer, the leading hockey brand, and Easton, the number three manufacturing player in baseball. During 2020 Peak merged Easton with Rawlings, the clear number one manufacturer in baseball. The transaction resulted in $65 million cash paid to Peak, while retaining a 28% stake in Rawlings. Peak is now partnered with Rawlings' controlling shareholder, Seidler Equity Partners. Fairfax recognized a $15 million gain on the sale of Easton which closed just before year end.

Fairfax 2017AR

On March 1, 2017 the restructuring of Performance Sports Group Ltd. ("PSG") was substantially completed after all of the assets and certain related operating liabilities of PSG were sold to an intermediate holding company ("Performance Sports") co-owned by Fairfax and Sagard Holdings Inc. The company's $153.5 equity investment in Performance Sports represents a voting interest of 50.0% and an equity interest of 42.6%. On April 3, 2017 Performance Sports was renamed Peak Achievement Athletics Inc. ("Peak Achievement").

Fairfax 2016AR

Also, early in 2017 we partnered with Paul Desmarais III and his excellent team at Sagard Capital to purchase Performance Sports. Performance Sports is the owner of the leading names in hockey, baseball and lacrosse equipment: Bauer, Easton and Cascade.

Notes from Power Corp's annual and quarterly reports:

Power Corp Q3, 2024 Interim Report

Peak: Sagard held a 42.6% equity interest and a 50% voting interest in Peak at September 30, 2024 (same as at December 31, 2023). Peak designs, develops and commercializes sports equipment and

apparel for ice hockey and lacrosse under iconic brands including Bauer. The Corporation's investment is accounted for using the equity method.

During the second quarter of 2024, Peak disposed of its minority interest in Rawlings Sporting Goods Company Inc. (Rawlings), a leading brand in baseball. In July 2024, Sagard received a distribution of US$60 million from Peak.

On September 30, 2024, Peak announced that Fairfax will acquire Sagard's 42.6% interest in Peak. On close of the transaction, the Corporation expects proceeds of approximately US$325 million, and to recognize a gain in net earnings of approximately US$195 million. The transaction is expected to close in the fourth quarter of 2024, subject to customary closing conditions.

Power Corp 2017AR

On February 27, 2017, Peak Achievement Athletics Inc. (Peak), an acquisition vehicle jointly controlled by Sagard Holdings and Fairfax Financial Holdings Limited, completed the acquisition of the assets of Performance Sports Group, Ltd. for total consideration of US$575 million. Peak designs and markets sports equipment and apparel for ice hockey, baseball, softball and lacrosse under iconic brands including Bauer and Easton. At December 31, 2017, the Corporation had invested $204 million (US$154 million) in Peak. Sagard Holdings holds a 42.6% equity interest and 50% of the voting rights in Peak. The Corporation's investment is accounted for using the equity method.

Recipe Unlimited - Eating more of its own cooking (2022 to 2025)

May 21, 2025

Introduction

Fairfax has been executing/undergoing a remarkable transformation over the past 7 or 8 years. The fundamentals of its two core businesses - insurance and investment management - have been steadily improving. As a result, beginning in 2021, operating earnings at the company began to spike higher. Investors are liking what they are seeing - Fairfax's P/BV multiple has been expanding. Spiking earnings, expanding multiple and much lower share count is rocket fuel for a stock - Fairfax's share price (US$) is up 382% since Dec 31, 2020.

Fairfax's Share Price - 4.4 Year Performance versus the Market Averages

Ex Dividends	Fairfax C$	Increase %	Fairfax US$	Increase %	S&P500 US$	Increase %	S&P/TSX C$	Increase %
Dec 31, 2020	$434		$341		3,756		17,433	
Dec 31, 2021	$622	43%	$492	44%	4,766	27%	21,223	22%
Dec 31, 2022	$802	29%	$594	21%	3,840	-19%	19,385	-9%
Dec 31, 2023	$1,223	52%	$921	55%	4,770	24%	20,958	8%
Dec 31, 2024	$2,000	64%	$1,390	51%	5,882	23%	24,728	18%
May 21, 2025	$2,279	14%	$1,645	18%	5,835	-1%	25,850	5%
4.4-Year Total Increase		425%		382%		55%		48%
4.4-Year CAGR		46.0%		43.2%		10.6%		9.4%

There is still much to learn about how the many improvements that Fairfax has been making to its business over the past 7 or 8 years will impact fundamentals/financial results in the coming years.

Doing deep dives into different parts of Fairfax's business helps us improve our understanding of the company. In turn, this helps us:

- Properly value the business/company.
- **Ensure we have the correct position size with our investment.**

My guess is Fairfax's transformation is still in its early innings.

Recipe Unlimited

Today we will do a deep dive on one of Fairfax's larger equity holdings, Recipe Unlimited. In 1H 2025, Fairfax made two investments that increase its ownership in Recipe (and all of its restaurant banners) to 100%. So, this is a good time to do an updated post on Recipe - to see what we can learn about both Recipe and Fairfax.

This post will cover the following topics:

1. A short review of Recipe Unlimited
2. In late 2022, Fairfax takes Recipe private
3. LBO M&A model used by private equity
4. Fairfax's 'LBO light' M&A model
5. In Q1 2025, Fairfax takes out its minority partner in Recipe - Cara Holdings
6. In May 2025, Fairfax proposes to takeout The Keg Royalties Income Fund ('KRIF')
7. What does Fairfax do next with its investment in Recipe?
8. What did we learn about Fairfax - putting it all together

Let's get started by doing a quick review of Recipe.

1.) A short review of Recipe Unlimited

Who is Recipe Unlimited?

> From Recipe's corporate website:
>
> - https://www.recipeunlimited.com/en/our-brands.html
>
> "Recipe Unlimited Corporation is Canada's leading full service restaurant company. We are a nationally recognized franchisor of choice with 1,200+ restaurants located in more than 300 communities across Canada, including many international locations. Home to such iconic brands as Swiss Chalet, Harvey's, St.Hubert, The Keg, Montana's, Kelseys, Bier Markt, East Side Mario's, Landing Group, New York Fries, The Pickle Barrel & Catering, State and Main, Elephant and Castle, Original Joe's, The Burgers Priest, Fresh, Blanco Cantina and Añejo."

What is Recipe's business model?

About 80% of Recipe's 1,200 restaurants are franchised and 20% are corporate owned (2022 stat).

The franchise business model has many advantages for the parent company (Recipe):

- Capital light - The capital needed to run the restaurant comes from/is obtained by the franchisee. An important source of leverage.
- Operationally light - The day to day operations of the restaurant are managed by the franchisee. They have the local know-how.
- Steady income streams - An up-front fee is charged to new franchisees. And an ongoing royalty fee (percent of total sales) is collected from all franchisees.

With Recipe, Fairfax is not really in the restaurant business (which is a very tough business). **It is really in the franchise business** (attracting, supporting and retaining a large group of wealthy entrepreneurs/business partners as franchisees). This is an important distinction.

Stable earnings

What this means is Recipe has a business that generates solid and (relatively) stable earnings. In 2024, the company generated about $82 million (C$114 million) in free cash flow.

In 1997, Warren Buffett bought Dairy Queen. What likely attracted Buffett to the business were the financial characteristics of the franchise model that provides a steady source of excess capital that Berkshire Hathaway can then redeploy into other opportunities/businesses.

- https://www.berkshirehathaway.com/news/oct2197.html

2.) In late 2022, Recipe is taken private

On September 1, 2022, Recipe (then a public company) agreed to be taken private by Fairfax.

Fairfax paid $354 million (C$465 million) to take out the public shareholders. Fairfax increased their stake in Recipe from 46% to 84%. Cara Holdings (founding Phelan family) continued to hold a 16% equity stake in Recipe.

There were two very good reasons for Fairfax to take Recipe private:

1. Financial - Fairfax was able to take Recipe private at a very attractive (low) price.
2. Operational - In 2021, Recipe got focussed on integrating/rationalizing/optimizing the many large restaurant banner mergers/acquisitions completed from 2013 to 2018 (CARA Operations, Prime Restaurants, New York Fries, St-Hubert, Original Joe's, The Keg). This was going to be a multi-year process. Fairfax decided this could best be done as a private company.

There are a couple of other important benefits to being a private company:

1. CEO is able to focus 100% on operating the business - responsibilities of being a publicly traded company are eliminated.
2. Management is able to run the business with a long term focus - not possible as a publicly traded company (where hitting the expected quarterly earnings number is the primary focus).

Prem's comments about the Recipe purchase from Fairfax's 2022AR:

"We decided to take Recipe private, and on August 9, 2022 we offered a 53% premium to the pre-announcement stock price. 99% of the shareholders tendered to the bid. We felt that as Recipe had undergone many acquisitions since it went public in April 2015, it was best to rationalize its operations in a private format. The Phelan family decided to stay with us for 16% and we have the remaining 84%. Frank Hennessey continues as CEO with Ken Grondin as CFO." *Fairfax 2022AR*

Fairfax was opportunistic - They bought low

Fairfax was very opportunistic with the timing of its purchase of Recipe. From 2018 to 2019 (before Covid), Recipe's share price traded in a range from C$25 to C$28/share. Covid hit the full-service restaurant business in Canada hard (lock downs). In 1H 2020, Recipe's shares traded below C$10/share. In September 2022, when Fairfax announced its take-private offer, Recipe's shares were trading below $C14.00/share.

Fairfax's takeout price was C$20.70/share, which was well below where the stock had traded in 2018/2019 (pre-Covid). In September 2022, Canada's full-service restaurant industry was just emerging from Covid - earnings had not yet rebounded to pre-Covid levels. **Fairfax was able to take Recipe private at a very attractive price. It did not have to pay a premium, which normally happens when a public company is taken private.**

Recipe was also a high certainty acquisition for Fairfax. They understood the company very well - its past, present and future potential. This made the Recipe take-out a very low risk investment for Fairfax.

In 2021, Recipe was deleveraging its balance sheet

Setting the table

Recipe's dividend was suspended in 2020 shortly after Covid hit. Recipe did not pay a dividend in 2021 (the Canadian government did not allow companies who had received Covid assistance to pay a dividend) - **its free cash flow was used to reduce debt, which came down by $76 million (C$95 million)**.

Prem's comments about Recipe from Fairfax's 2021AR:

> "Recipe survived another tough year in 2021 as lockdowns closed its restaurants for long periods during the year. In spite of these lockdowns, Recipe pivoted to e-commerce sales, curbside pick-up and home delivery to generate system sales of Cdn$2.7 billion, up 12% from 2020 and down 22% from 2019. E-commerce sales now account for Cdn$675 million or almost 25% of Recipe's system sales, up from Cdn$340 million or 10% of system sales in 2019. Recipe's franchise revenue was Cdn$150 million in 2021, up 18% from 2020, and EBITDA for the year was Cdn$144 million, down 33% from pre-pandemic levels of Cdn$216 million. **Recipe was able to reduce its debt outstanding by Cdn$95 million in 2021,** capping an outstanding performance by Frank Hennessey and his team." *Fairfax 2021AR*

How was the take-private of Recipe financed?

In 2022, Fairfax paid a total of $354 million to take Recipe private. This was comprised of two parts:

- Cash consideration from Fairfax of $242.5 million.
- Increase in borrowings at Recipe of $99.8 million. (Paying down debt in 2021 certainly was well timed.)

In taking Recipe private, Fairfax tapped a second source of 'other people's money': Cara Operations continued on as a 16% minority equity partner.

Fairfax only had to pay $242.5 million in cash to take Recipe private and increase its ownership from 46% to 84%. Fairfax also used 'other people's money' of $248 million to help pay for the take private (debt from Recipe and equity from Cara Operations).

Using leverage (other people's money) was a way for Fairfax to keep its capital contribution low. This is a proven/smart way to generate a higher return on its equity investment in Recipe (ROE).

What does this transaction look like?

It kind of looks like the leveraged buyout merger and acquisition model that is used by private equity. Not exactly… but it does share many of the same characteristics. This might be important. Let's explore this more.

Recipe Unlimited - 2022 Take Private Math							Carrying Value	
			$20.73	$0.761	Take Private Financing			
		Shares	Purchase Price				Dec 31	
Equity value	Split	m	C$	US$	Fairfax	Other	2022	Split
Cara	16.0%	9.4	$195	$148		$148	$127	16%
FFH old	45.9%	27	$560	$426				
FFH new	38.1%	22.4	$465	$354	$243		$668	84%
Total equity value		**58.8**	**$1,220**	**$928**			**$795**	
Total debt at Dec 31, 2021				**$359**		$100	**$464**	
Total cost / Enterprise value				**$1,287**	**$243**	**$248**	**$1,259**	
					49%	51%		
					FFH	OPM		

Details on the Recipe purchase from Fairfax's 2022AR:

"On October 28, 2022 the company acquired all of the multiple voting shares ("MVS") and subordinate voting shares in the capital of Recipe, other than those shares owned by the company and 9,398,729 MVS owned by Cara Holdings Limited, at a cash purchase price of Cdn$20.73 per share or $342.3 (Cdn$465.9) in aggregate, comprised of cash consideration of $242.5 (Cdn$330.0) **and an increase in borrowings by Recipe of $99.8 (Cdn$135.9)**." *Fairfax 2022AR*

3.) Leveraged buyout (LBO) merger and acquisition (M&A) model

The LBO M&A model used by private equity can be summarized as follows: Buy another company (using a lot of leverage). Improve its operations. Use the cash flow from the business to reduce leverage. Sell the company for a big profit 5 or so years later. A small up-front equity investment can deliver an exceptional rate of return.

The mechanics of an LBO

An LBO is a method used to buy another company by primarily using other people's money (usually debt).

- The financial sponsor (the acquiring company) provides a small amount of equity capital (perhaps 1/3 of the total purchase price).
- Lenders provide the debt, which is used to pay the majority of the purchase price (perhaps 2/3 of the total purchase price).

The financial assets of the acquired company are used as collateral to obtain the debt financing. The debt is non-recourse to the financial sponsor.

The free cash flow of the acquired company is used to:

- Pay the interest costs.
- Pay down debt.
- Grow the business.

Funding most of the purchase price with debt applies a significant amount of leverage to the deal for the financial sponsor. As the debt is paid down the value of the equity increases. Because a small amount of equity was used to make the initial purchase, over a 5-year period the return on equity for the financial sponsor can be quite large.

Key: For this model to work the company being acquired has to generate solid and consistent free cash flow. The leverage (usually debt) needs to get paid down over time.

Let's apply what we learned to Fairfax's take-private of Recipe to see what we can learn.

4.) Fairfax's 'LBO light' M&A model

If it If it looks like a duck, swims like a duck, and quacks like a duck, then it probably is a duck.

Fairfax is not a private equity shop. It is a P/C insurance company. As a result, it is going to 'tweak' the LBO M&A model described above to fit its business model. Looking at the Recipe take-private deal, Fairfax made two important 'tweaks' to the traditional LBO M&A model:

1. The amount of debt put on Recipe's balance was reasonable - both the incremental amount ($99.8 million) and the total amount ($464 million).
2. Fairfax also used equity to fund part of the total purchase price (this keeps the D/E ratio reasonable). They included a minority partner (Cara Operations) in the take-private deal. Fairfax knew Cara well (had been partnered with them since 2013) - they were a long term, trusted partner. Cara owned 16% of Recipe's publicly traded shares and they agreed to roll their ownership stake over into the private company. **Fairfax has a long history of using minority partners when making large acquisitions (insurance and non-insurance businesses).**

It looks to me like Fairfax has been using an 'LBO light' M&A model for years. I call it 'light' because they go easy on the total amount of leverage they use (which lowers the risk). And they sometimes use both debt and equity as sources of leverage (which lowers the risk even more).

Fairfax has a stated return target of 15% when making equity investments. Using a modest amount of leverage helps Fairfax achieve this target.

Cash flow is super important

OK, it has been a couple of years since Recipe was taken private at the end of 2022. As we discussed, under the LBO M&A model free cash flow is used to reduce leverage.

What did Recipe do in 2023 and 2024?

Recipe reduced total debt by $64 million in 2023 and another $90 million in 2024.

These actions further support our 'LBO light' M&A model thesis for Fairfax.

Recipe - Change in Total Debt		
	Total Debt US$ m	
2021YE	$359	Debt reduction of $76 million
2022YE	$464	Recipe take private (+$99.8m)
2023YE	$400	Debt reduction of $64 million
2024YE	$310	Debt reduction of $90 million

OK, with total debt at Recipe low, what does Fairfax do next?

We got our answer in Q1 of 2025.

5.) In Q1 2025, Fairfax takes out its minority partner in Recipe - Cara Holdings

Transaction details

In Q1 2025, Fairfax took out its minority partner in Recipe - Cara Holdings, who owned a 16% stake. It appears Fairfax paid US$157.6 million. (We didn't get confirmation from Fairfax of the exact amount - but I think this number is directionally accurate).

Cara Holdings is owned by the Phelan Family. The Phelan family's roots in Recipe/Cara go back to 1850 when Thomas Patrick Phelan began selling apples and newspapers to passengers on the Niagara steamboats.

Historical timeline for Recipe and its accumulation/roll-up of Canadian restaurant banners:

https://www.recipeunlimited.com/en/about/timeline.html

How was the purchase of Cara Operations stake in Recipe financed?

Recipe took on more debt ($132.1 million) to fund the takeout of Cara Holdings. Total debt at Recipe continues to be very manageable. Over the next year, the free cash flow of Recipe will likely be used to pay down Recipe's debt.

Recipe - Change in Total Debt		
	Total Debt US$ m	
2021YE	$359	Debt reduction of $76 million
2022YE	$464	Recipe take private (+$99.8m)
2023YE	$400	Debt reduction of $64 million
2024YE	$310	Debt reduction of $90 million
Q1-2025	$442	Buyout of minority partner (+$132.1)

From Fairfax's Q1 2025 Interim Report:

> "During the first quarter of 2025 Recipe increased its borrowings by $132.1 (Cdn$190.0) to partially fund the repurchase and cancellation of its common shares not owned by Fairfax as described in note 12."
>
> "Net borrowings on revolving credit facilities and short term loans - non-insurance companies of $160.7 and purchases of subsidiary shares from non-controlling interests of $157.6 in 2025, primarily reflected additional draws by Recipe on its revolving credit facility to repurchase and cancel its common shares not owned by Fairfax." *Fairfax Q1 2025 Interim Report*

We come full circle

Fairfax used minority partner Cara Operations as a short term source of cash/leverage when it to took Recipe private in 2022. At the time, Fairfax contributed cash of only $243 million, which boosted its ownership position from 46% to 84%. Contributing no new cash, Fairfax now owns 100% of Recipe and its free cash flow. The return on Fairfax's incremental $243 million investment in Recipe over the past 2.5 years has been very good.

Fairfax now owns 100% of Recipe (total debt is at a reasonable level). What does Fairfax do next?

We got our answer on May 5, 2025.

6.) In May 2025, Fairfax's proposes to takeout The Keg Royalties Income Fund ('KRIF')

Transaction details

Recipe owns 100% of all of its large restaurant banners, except the Keg. From an ownership perspective, the Keg has two pieces:

- The corporate entity, Keg Restaurants Limited (KRL), which is 100% owned by Recipe.
- The subsidiary, KRIF, which is publicly traded. Fairfax owns 50.5% of KRIF.

KRIF holds the trademarks and intellectual property used by the Keg. KRIF collects a royalty of 4% of sales (on corporate and franchised restaurants) from KRL. KRIF pays out its earnings in a monthly distribution to shareholders.

KRIF corporate website: https://thekeg.com/en/keg-income-fund

Fairfax is offering to pay C$18.60/share for KRIF. This values 100% of the company at US$151 million. **It will cost Fairfax about $75 million to buy the 49.5% of KRIF it does not own.**

Details of Fairfax's offer: https://thekeg.com/en/keg-income-fund/05052025

Keg Royalty Income Trust			Ownership Split		
Transaction Details			Fairfax	Ex Fairfax	
May 17, 2025			50.5%	49.5%	
Shares	m	11.4			
Proposed Price	C$	$18.60			
Value (C$)	C$	$211			
Value (US$)	US$	$151	$76	$75	Est cost to Fairfax

KRIF currently pays out a month distribution to shareholders of C$0.0946/share. The total payout for KRIF is US$9.2 million per year.

Keg Royalty Income Trust			
Dividend Payout Details			
May 17, 2025			
Monthly/Share	C$	$0.09	
Annual/Share	C$	$1.14	
Total Payout (m)	C$	$12.9	
	US$	$9.2	
Fairfax Share	US$	$4.7	
Ex FFH Share	US$	$4.6	Est dividend pickup for Recipe/Fairfax

Why do this transaction?

There are a number of benefits to Recipe and Fairfax from doing this transaction.

Structure/Operational benefits

As we mentioned earlier in this post, one of the primary reasons Recipe was taken private in late 2022 was to better support the 'rationalization' of its operations (consolidate/integrate the many different restaurant banners that were merged/purchased from 2013 to 2018).

The purchase of the KRIF will give Recipe 100% control of the Keg. This will allow Recipe to complete its rationalization efforts (as it will control 100% of its large restaurant banners - the KRIF layer can be eliminated (people, reporting and complexity). **This purchase brings to a close the aggressive roll-up strategy that Recipe/Cara executed from 2013 to 2018.**

Strategic benefits - the future

Having 100% control of the Keg will give Recipe greater flexibility - and allow it to manage the banner as it sees fit moving forward - unconstrained by the needs of KRIF. The Keg has the potential to be a growth driver for Recipe moving forward (international expansion). Having a more conventional capital structure should also assist the company in financing its growth initiatives at the Keg.

Financial

The price being paid ($151 million) to take KRIF private is reasonable. Fairfax owns 50.5% of KRIF, so the cash required to complete the take private is $75 million.

This purchase will grow Recipe's total earnings as 100% of KRIF earnings will now accrue to Recipe.

How will the takeout of KRIF be financed?

We do not know how Fairfax will finance the KRIF purchase when it closes later in 2025. There is a good chance it could be funded by Recipe (from increased borrowings).

Summary

The purchase of KRIF will give Recipe 100% ownership of the Keg. This provides meaningful operational and strategic benefits to Recipe. The financial benefits are solid. The purchase of KRIF also brings to a close the aggressive roll-up strategy that Recipe/Cara executed from 2013 to 2018 (with Recipe now owning 100% of its major restaurant banners.)

7.) What does Fairfax do next with its investment in Recipe?

The economic value of Fairfax's investment in Recipe has been growing nicely over the past 2.5 years. The increase in economic value has not been captured by a corresponding increase in Fairfax's (accounting) carrying value for Recipe. (The carrying value for Recipe is what is reflected in Fairfax's book value.) The value creation at Recipe in recent years has been hidden. Fairfax will find a way to surface the hidden value in the future.

Fairfax and Recipe		
US$ m	Ownership	Carrying Value
2022YE	84%	$657
2023YE	84%	$684
2024YE	84%	$669

Moving forward, Fairfax has three broad options with Recipe:

1. Keep the business - Use it as a cash cow.
2. Strategic sale - Sell to another player in the industry.
3. IPO - Sell all or part of the company to the public.

Of course, it is impossible to know what Fairfax ultimately will do. We do know that they will be opportunistic - they will sell investments when it makes sense.

The bottom line, with their decisions and execution over the past 3 years, Fairfax has put themselves in a very good position - they have lots of very good options. Welcome to 'new Fairfax'.

8.) What did we learn about Fairfax - putting it all together

With the takeout of KRIF, Recipe will own 100% of its restaurant banners. With the takeout of CARA Operations, Fairfax now owns 100% of Recipe. Both transactions greatly simplify Recipe's structure. Recipe/Fairfax will also have greater flexibility to manage its total business and its many restaurant banners as it sees fit moving forward - unconstrained by the needs/wants of minority partners.

These transactions have been financed using an 'LBO light' model - with the majority of the cash coming primarily from Recipe (debt, which is then paid off with its free cash flow).

These transactions satisfy the dual objectives of capital allocation done well:

- **Operationally, they make Recipe a much stronger / more resilient company.**
- **They provide a solid rate of return to Fairfax and its shareholders.**

Fairfax has been very active with its investment in Recipe Unlimited over the past 3 years.

What did we learn about Fairfax's senior team and how they do capital allocation?

Below are some thoughts:

1. Strategic - Goal was to get 100% control of Recipe and 100% control of all its banners.
2. Long term focus- Required execution of a multi-year strategy to achieve the goal.
3. Patient - Did not get impatient and force things/timing. Let the opportunity play out naturally over time.
4. Opportunistic - The takeout of Recipe's minority shareholders in 2022 was done at a low price. The takeout of the Keg minority shareholders in 2025 was done at a fair price (this transaction has not closed yet as of May 2025).
5. Creative - Used debt (Recipes balance sheet) and equity (Cara Operations) to fund much of the total purchase price. Free cash flow of Recipe was used to reduce leverage.
6. Delivered a solid return to Fairfax and its shareholders.

Fairfax has developed many different capabilities when it comes to capital allocation

When it comes to how it allocates capital, Fairfax has developed a number of different capabilities over the past 7 or 8 years. 'LBO light' is just one example of a model that Fairfax has successfully utilized in recent years with many of its take-private purchases (Sleep Country and Peak Achievements being two of the most recent examples).

As we learned with Recipe and what Fairfax has done with this investment since 2022, this 'LBO light' capability is not 'theoretical.' Fairfax has clearly demonstrated they know what they are doing. It is a proven capability.

When it comes to capital allocation, having a full toolbox of proven capabilities allows Fairfax to be very patient and opportunistic. In turn, this should allow them to earn a higher rate of return on the business over time. **And that is what we are starting to see.**

The bigger picture - an important source of liquidity

Having 100% ownership of operating businesses like Recipe makes Fairfax a more resilient company from a financial perspective.

- Recipe provides a stable and growing source of free cash flow for Fairfax that is not correlated with the P/C insurance business.
- Recipe is a desirable asset. It could be sold (all or part) to raise cash.

Prem's comments about Recipe from Fairfax's 2024AR.

"Recipe surpassed its record-breaking system sales in 2023 (adjusted for the 53rd week) with system sales of Cdn$3.6 billion in 2024.Revenue was up 0.5% driven by improvements in corporate restaurants and the consumer packaged goods business. The company delivered Cdn$114 million in free cash flow and reduced overall leverage to less than 2x. With a strong underlying business, Frank Hennessey, Ken Grondin and their team are focused on top line growth. Expansion is under way in the United States and Indian markets, complemented by organic growth in Canada from new restaurants. The company will also be launching new products in its already sizable consumer packaged goods business (where Recipe's brands are sold in grocery stores). Recipe is carried on our balance sheet at 10x free cash flow." *Fairfax 2024AR*

Recipe's 2024 free cash flow and valuation

- Free cash flow (2024) = C$114 million = US$82m
- Recipe share (84%) = US$69 million
- Fairfax's carrying value for 84% stake in Recipe = $669 million (at Dec 31, 2024) = 9.7 x 2024 FCF

A History of Fairfax's Investment in Recipe

April 18, 2023

I am warming up to Fairfax's recent take-private deal for Recipe. Recipe WAS a terrible investment for minority shareholders forever. However, what investors in Fairfax care about today is how will the company perform for Fairfax moving forward? How much cash flow will Recipe be able to deliver each year moving forward? I think it will be able to get back to historical free cash flow levels of around C$130 million (US$95 million) per year to Fairfax (their 84% share). This earnings stream should also be pretty consistent year in year out and should grow nicely over time.

In the near term I am interested to see what Recipe does with their free cash flow. We now know US$100 million of the US$340 million purchase price was funded by an increase in debt at Recipe. So perhaps free cash flow at Recipe in the near term will be used to pay down this additional debt. Longer term it will be interesting to see if Recipe uses free cash flow to expand (likely US) or if they pay it out to Fairfax - who then invests it. I am hoping it goes to Fairfax.

Recipe might be a great example of a company that needed to go private to reach its potential. Being a publicly traded company has its weaknesses. Recipe did so many major acquisitions over the past 10 years it likely has some work to do to get systems etc updated and fully integrated and working seamlessly. Fairfax hinted as much as a reason for the take private deal. Recipe also has some hidden assets like real estate. Bottom line, Fairfax was likely very opportunistic with this purchase.

The minority shareholders were the ones left holding the bag. As a reminder, Fairfax paid C$20.73 for the shares in Recipe it did not own. Here are the capital raises done by CARA/Recipe over the years:

- 2015: CARA IPO C$230 raised at C$23/share
- 2015: Phelon family sells $103 million at C$37.75/share
- 2016: Capital raise to fund St Hubert: C$230 million at C$29.25
- 2018: Capital raise to fund Keg: C$95 million at C$24.93

For those who want more history on Recipe, below is a post from last year.

September 5, 2022

What follows is a very long post… everything you wanted to know about Recipe and Fairfax. On Sept 1, 2022, Recipe agreed to be taken private by Fairfax. Shareholder approval should come in Q4. The cost to Fairfax? C$465 million = US$354 million. Fairfax will own 84% and Cara Holdings (founding Phelan family) will own 16%.

Ownership after take-private:

- Cara Holdings (Phelan) 9.4 million
- Fairfax currently 27.0 million
- Fairfax to buy 22.4 million at C$20.73 = C$465 million
- Total shares outstanding 58.8 million at C$20.73 = C$1.22 billion market cap
- Total net debt C$340 million; Enterprise value = C$1.56billion

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Why is Fairfax doing this? Fairfax sees Recipe shares as being significantly undervalued at C$20.73.

Is Fairfax right? The problem is covid has wreaked havoc on results of restaurant operators in Canada since Q1, 2020, especially full service dine-in restaurants (the largest portion of Recipe's restaurant count). Repeatedly locking down an economy is not good for business, especially for restaurants. So, looking at Recipe's financial results the past 10 quarters is not very helpful.

What about going back 2017 to 2019? Free cash flow (before growth capex, dividends, and NCIB) at Recipe was:

- 2017 = C$144 million
- 2018 = C$164 million
- 2019 = C$156 million

Clearly, Fairfax expects Recipe - in the coming year or two - to get back to a run rate of around C$150 million in free cash flow. If this happens then this will become a very good purchase for Fairfax shareholders. The earnings from Recipe, while cyclical, should also be relatively consistent year to year providing some stability and important diversification from Fairfax's other large equity holdings and its insurance business.

What is Fairfax's total lifetime cost for 84% of Recipe?

My guess is US$354 + $348 = $702 million

I base my above estimate on two data points:

1. Cost to Fairfax to take out minority shareholders of US$354.
   - 22.4 million share x C$20.73 = C$465 million

2. Total $ amount Fairfax invested in Prime/Cara/Recipe from 2011 to present to establish their current ownership stake of 46% of $348 million.
   - At the time of The Keg merger with Cara/Recipe in 2018 Fairfax said they had invested a total of $348 million over the years. My guess is Fairfax did not put any more money into Recipe after 2018.

Recipe did pay a quarterly dividend from after the IPO in 2015 until early 2020. It Started at C$0.0917/quarter and finished at C$0.1177

Because Recipe received wage benefits from the government during the pandemic it is not able to pay a dividend until 2023 (if it did it might have to pay back the benefits received from the government during covid). If not for the government restriction I think it is likely Recipe would have reinstated the dividend when Q2 results were released. Instead, Recipe has been using free cash flow to pay down its long-term debt. On Dec 31, 2019 net debt was C$440 million. Q2-2022 net debt was down to C$340 million. I wonder if Fairfax will have Recipe increase long term debt to help fund part of the C$465 million in cash needed in the take private transaction.

Fairfax has been investing in Canadian restaurant stocks since 2011. The Prime Restaurants purchase was the start of a massive consolidation by Fairfax of the full-service restaurant industry in Canada that would culminate in 2018 with the merger of Cara with the Keg (the last large purchase) and the rebranding of the company from Cara to Recipe. Bill Gregson (formerly the CEO of The Brick, a former Fairfax holding), who had led the massive roll up of full-service restaurant banners, retired in 2018 and was replaced by Frank Hennessey, who remains CEO today. Frank's job the past 4 years has been one of digesting all the large acquisitions made the previous years. More recently, we have seen Recipe shedding non-core brands like Milestone's, shedding underperforming locations/franchisees and paying down long-term debt. Today Recipe has more than 1,200 restaurants and is the largest full-service restaurant operator in Canada. The bottom line is Fairfax understands Recipe and the restaurant industry in Canada exceptionally well. Clearly, Fairfax sees a significant value opportunity in taking Recipe private at C$20.73/share.

Much can be learned about Fairfax by looking at its involvement the past 11 years in Prime/Cara/Recipe. Long term focus (a vision to consolidate the restaurant business in Canada). Build long term relationship with equity partner (the Phelon family since 2013 and continuing post take-private). Missteps (Cara overpays on acquisitions). Persistence (multiple, large acquisitions over more than a decade). Adversity (covid from 2020 to 2022). Very opportunistic - minority shareholders beware (take private Sept 2022).

Fairfax began investing in Canadian restaurant stocks in 2011 with two separate purchases.

In Dec 2011 Fairfax invested US$10 million in Imvescor Restaurant Group's recapitalization.

Imvescor banners: Baton Rouge, Pizza Delight, Scores, Toujours Mikes, Ben & Florentine. Fairfax added to their position in Nov 2012 ($1 million) and then sold their entire position to GMP Securities in April 2013 for proceeds of $26 million.

The second purchase was the start of an 11-year journey with many twists and turns that is now culminating in Fairfax's C$1.2 billion take private offer for Recipe.

1.) Initial purchase: In Nov 2011, Fairfax outbid Cara (oh, the irony) and purchased 81.7% of Prime Restaurants (East Side Mario's, Casey's, Prime Pubs and Bier Markt) for US$69 million.

2.) Cara merger: Oct 2013 Prime was merged with Cara Operations (Swiss Chalet, Harvey's, Milestones, Montana's and Kelsey's). Bill Gregson named CEO. Fairfax invested a total of US$157 million (including its stake in Prime) and owned 49% of Cara which was privately held at the time (Phelan family owned 51%). "Cara has solidified its position as Canada's largest full-service restaurant company with iconic brands that deliver unique dining experiences for Canadians coast to coast. This combined family of restaurants significantly increases Cara's scale, strengthens its market position, and provides opportunities for growth and acquisitions."

3.) Dec 2014: Cara buys majority ownership (55%) in Landing Group, Southern Ontario based, high-volume, upscale casual restaurant concept. Remaining 45% ownership was purchased June 2015.

4.) Cara IPO: April 2015, Cara went public. Post IPO, Fairfax owned 40.7% (53.2% voting control) and Cara was debt free. IPO raised raised C$230.1 million (US$180) = 10 million shares @ C$23/share (including over-allotment). I think this is when Fairfax obtained voting control of Cara from the founding Phelon family. Fairfax would be driving the strategic direction of Cara from this point forward.

5.) Aug 31, 2015: Cara purchases New York Fries. "With 120 locations in Canada and another 36 abroad, New York Fries is one of Canada's most successful QSR concepts." "Cara is

acquiring New York Fries for cash consideration which will be funded through Cara's existing credit facilities. The acquisition is accretive for Cara shareholders. The addition of New York Fries also helps diversify Cara's portfolio of stores into shopping centers where Cara's existing 10 brands currently have limited presence."

6.) Dec 2, 2015: Phelan family sells 3 million Cara shares @ $34.75/share (in secondary offering) for C$104 million. Fairfax continues to own 40.5% of shares and now has 57% of voting rights.

7.) Quebec expansion: March 31, 2016, Cara purchases St-Hubert for C$537 million (US$406). "The acquisition provides Cara with a restaurant chain that resonates with guests in Québec as well as with a food retail solution for the Cara brands – these are two areas of Cara's existing business where we have tremendous opportunities. It also provides Cara with a head office in Québec, manufacturing facilities, and a skilled management team that will grow and manage the Cara Québec restaurant expansion and national retail food initiative." Includes a valuable real estate portfolio consisting of 28 owned properties including 2 manufacturing plants. St-Hubert generated approximately $620 million in System Sales, including the food operations division, and approximately $44.8 million in Operating EBITDA.

8.) To fund St-Hubert acquisition, Cara raises C$230 million (US$174 million) = C$29.25 x 7.86 million shares. Fairfax purchases 3.487 million shares for C$102 million (44% of newly issued shares).

9.) West expansion: Sept 1, 2016: Cara purchases Original Joe's for C$93 million (US $70) - Original Joe's Restaurant & Bar, State & Main Kitchen Bar and Elephant & Castle Pub and Restaurant. "With its proven restaurant-pub concepts and its understanding of the casual, full-service foodservice space, Original Joe's is a natural fit for Cara. The majority of Original Joe's restaurants are located in Western Canada, an area where Cara is currently under-represented." "Original Joe's 99 restaurants generate approximately $250 million in annual System Sales and approximately $14.7 million in Normalized Operating EBITDA before synergies."

10.) Last big acquisition: Feb 2018, The Keg merged with Cara. Cara pays C$200 million (US$154) = C$105 million in cash and C$95 million in shares = 3.8 million new shares issued at @ C$24.93. Cara changes name to Recipe
- Fairfax 51% interest in Keg sold to Recipe for $7.9 million + 3.4 million Recipe shares (Fairfax ownership of Recipe = 43.2%)
- Total Fairfax investment to date in Cara = $348 million

11.) April 30, 2018: Frank Hennessey appointed CEO of Cara. Bill Gregson steps down as CEO to become Executive Chairman of the Board.

12.) Oct 24, 2019: after additional C$4 million purchase, Recipe owns a total of 29.15% of units in Keg Royalties Income Fund (traded on TSX)

13.) Dec 10, 2019: Bill Gregson retires as Executive Chairman of the Board of Recipe Unlimited. Paul Rivett, President of Fairfax Financial Holdings Limited, will assume the role as Chairman of the Board of Recipe Unlimited. Mr. Gregson commented, "Thanks to the hard

work of all our amazing teammates and franchisees, we have built a business that today generates $3.5 billion in system sales and over $200 million in EBITDA. Today, the company has a strong balance sheet and a solid business process foundation. Now with the CEO transition to Frank Hennessey complete, the company is planning its next evolution to prosper in an ever-changing world.

14.) May 6, 2021: Recipe completed the acquisition of Crave It Restaurant Group's ("Crave It") ownership interest in both The Burger's Priest and the 'Fresh – Crave It – Recipe' joint venture for new market growth of Fresh Plant Powered ("Fresh Restaurants"). "Both The Burgers Priest and Fresh Restaurants are dynamic omni-channel brands that have very loyal customer followings. Recipe is excited about the future potential of these dynamic brands."

About Recipe: Founded in 1883, Recipe Unlimited Corporation (formerly Cara Operations) is Canada's oldest and largest full-service restaurant company. The Company franchises and/or operates some of the most recognized brands in the country including Swiss Chalet, Harvey's, St-Hubert, The Keg, Montana's, Kelsey's, East Side Mario's, New York Fries, Prime Pubs, Bier Markt, Landing, Original Joe's, State & Main, Elephant & Castle, The Burger's Priest, The Pickle Barrel, Marigolds & Onions, and 1909 Taverne Moderne.

Sleep Country - An Introduction

May 28, 2025

Recent developments

It was reported on May 7, 2025, that Sleep Country has purchased Simba Sleep, a UK based mattress-in-a-box manufacturer. Sleep Country knows Simba well. Sleep Country has been Simba's exclusive distributor in Canada since 2018.

It appears to be another example Sleep Country being opportunistic - buying an asset they like that is a good long term fit with their business in Canada. It also gives Sleep Country a presence in the UK market.

Mattress brand Simba beds down with new Canadian owner - May 7, 2025

https://news.sky.com/story/mattress-brand-simba-beds-down-with-new-canadian-owner-13363197

"The deal with its new Canadian owner is said to comprise an up-front initial payment, with further payments to be made in the coming years depending upon the performance of the business."

Simba corporate website: https://simbasleep.com

Simba's story: https://simbasleep.com/pages/our-story

Sleep Country partnered with Simba in 2018 and became their exclusive distributor in Canada.

SLEEP SUPERPOWERS TEAM UP: Sleep Country Canada to Launch Europe's #1 Mattress-in-a-Box, Simba, exclusively in Canada – May 31, 2018

https://www.newswire.ca/news-releases/sleep-superpowers-team-up-sleep-country-canada-to-launch-europes-1-mattress-in-a-box-simba-exclusively-in-canada-684164261.html

"While searching the world for premium products to further enhance our online offering, we discovered Simba from the U.K.," said Schaefer. Simba's unique Hybrid® mattress in a box, combines responsive memory foam with the support of 2,500 patented conical pocket springs and is a great complementary product to our existing mattress-in-a-box online offering, Bloom.

"Since Sleep Country's goal is to continuously introduce unique technology and quality products to our customers, it made perfect sense for the #1 Mattress Retailer in Canada to partner up with the #1 mattress-in-a-box player from Europe, Simba," added Schaefer. With the launch into Canada, Simba mattresses are now available in 15 countries around the world."

Prem's comments about Sleep Country from Fairfax's 2024AR.

> On October 1, 2024, we purchased 100% of Sleep Country, which was listed on the TSX, at Cdn$35 per share or $881 million. Sleep Country is Canada's preeminent mattress retailer. Under Christine Magee and Steve Gunn's leadership, it has grown to over 300 locations since it was founded by them in 1994. It has an approximately 40%-market share in Canada with an industry leading omnichannel platform, high margins and substantial free cash flow. In 2005, Sleep Country acquired Dormez-Vous in Quebec, a mattress company that was begun by Stewart Schaefer, also in 1994. Since the acquisition, Stewart has gradually run different aspects of the Sleep Country operations including marketing and real estate and has effectively run Sleep Country for the last 10 years. Stewart is an outstanding entrepreneur, and we are very excited to partner with him as he continues to expand Sleep Country in Canada and beyond. We acquired Sleep Country at 14x free cash flow.
>
> *Prem Watsa – Fairfax 2024AR*

Details of Fairfax's acquisition of Sleep Country.

> Acquisition of Sleep Country Canada Holdings Inc.
>
> On October 1, 2024 the company acquired all of the issued and outstanding common shares of Sleep Country Canada Holdings Inc. ("Sleep Country") for purchase consideration of $880.6 (Cdn$1.2 billion) or Cdn$35.00 per common share, and commenced consolidating the assets, liabilities and results of operations of Sleep Country in its Non-insurance companies reporting segment. The purchase consideration was comprised of cash of $562.7 (Cdn$759.9) and new non-recourse borrowings of $317.9 (Cdn$429.2) by a newly formed purchasing entity, which amalgamated with Sleep Country upon close. Sleep Country is a specialty sleep retailer with a national retail store network and multiple e-commerce platforms. *Fairfax 2024AR*

November 11, 2024

With the Sleep Country acquisition closing on October 1, 2024, it is time to do a high-level review of this company to see what we can learn.

Fairfax has been generating a record amount of net earnings and free cash flow in recent years. This is expected to continue. What is Fairfax doing with all the cash they are generating?

One of the major themes in recent years has been building out their collection of non-insurance private business holdings (reported in the 'non-insurance consolidated companies' bucket).

Are we in the early stages of a shift at Fairfax from pure P/C insurance company to a conglomerate model (like Berkshire Hathaway)? Perhaps. This is something to monitor moving forward.

Fairfax closed its purchase of Sleep Country on October 1, 2024. Total purchase consideration was $880.6 million (C$1.2 billion).

The financing of the deal is interesting. Purchase consideration was made up of two components:

- Cash of $562.7 million, paid by Fairfax.
- Debt of $317.9, which was assumed by Sleep Country after close (and is non-recourse to Fairfax).

A few things jump out with this transaction:

- Its size - At $880.6 million, it is a large purchase. After Seaspan/Atlas, this is Fairfax's second largest equity investment made over the past 6 years.
- Type of transaction - It is a take private deal. Sleep Country was a publicly traded company (260th largest in size on TSX). Fairfax continues its aggressive build out its 'non-insurance consolidated companies' bucket of holdings.
- The use of leverage - Debt was used to fund 34% of the total purchase price. Fairfax is not afraid to use a modest amount of leverage when making acquisitions.

We will dig into each of these things, and more, in the rest of this post.

<u>What return does Fairfax target when making investments like Sleep Country?</u>

Fairfax has a stated goal of earning 15% (pre-tax) per year on their equity investments. Importantly, they hope to achieve this return objective over the life of the holding - it is their long-term goal.

With Sleep Country, a 15% (pre-tax) return equates to about:

- $562.7 million cash investment x 15% = $84.4 million (pre-tax) per year

Over the last couple of years, pre-tax net earnings at Sleep Country averaged about $80 million (C$110 million per year). Driven by Covid, Sleep Country over-earned in 2021 and 2022. However, due to a poor housing market and economy in Canada, Sleep Country likely under-earned in 2023 and especially YTD 2024.

Moving forward, interest expense at Sleep Country will be elevated due to the incremental $317.9 million in debt taken on. So my guess is Sleep Country will not hit Fairfax's 15% return target over the next couple of years. However, Fairfax thinks long term when they make their investments. They obviously feel there is a good chance that over time, the management team at Sleep Country will be able to grow the business and deliver their targeted return.

<u>What does Fairfax like about Sleep Country?</u>

My guess is Fairfax likes:

- The senior management team.
- The size and stability of the earnings stream that Sleep Country is generating.
- The long-term prospects of the business.

Fairfax bought a quality business for a fair price. Exactly the sort of thing that many investors have been hoping Fairfax would do more of. Welcome to 'new Fairfax.'

For a good review of Sleep Country's business, see the linked report from Fairway Research from April 2023: https://www.fairwayresearch.com/p/sleep-country-deep-dive-tsx-zzz

Fairfax has a long history of being invested in the mattress segment in Canada

Fairfax understands the mattress market in Canada very well. Back in 2004, Fairfax invested in the Brick, a large furniture retailed in Canada. In 2013, the Brick was merged with Leon's creating the largest furniture retailer in Canada (Fairfax became a large shareholder in Leon's). Mattress sales were one of the company's core businesses. Fairfax sold its entire stake Leon's in late 2021 (for C$25 per share) when the stock was trading at a Covid high.

Sleep Country is likely the best managed/performing large company in the furniture retailing market in Canada over the past 20 years. Sleep Country has likely been on Fairfax's radar for many years.

Using debt to help finance acquisitions

Why use debt?

1.) To achieve the long-term strategic goals of the company.

- To be opportunistic - strike when the opportunity presents itself.
- To make larger acquisitions.
- To make private/control acquisitions.

2.) To maximize value creation for shareholders.

- To improve the return profile of the acquisition.

Bottom line, debt is a tool in Fairfax's capital allocation toolbox.

This strategy (having the acquired company take on debt to help fund the purchase) is similar to what private equity shops do with leveraged buyouts. Except in Fairfax's case, the total amount of debt used is modest. And the debt gets paid down over time (I think).

With Sleep Country, 34%, or $317.9 million, of the total purchase price of $880.6 was financed with debt. Fairfax did a similar thing with the Recipe when it was taken private in 2022.

The plan will likely be for Sleep Country to use some of its free cash flow in the coming years to pay down some of the debt taken on to help finance the deal (I think this is what Recipe has done). It does not appear that Fairfax is looking to permanently lever up the balance sheets of the companies it purchases/takes private.

Strategic importance of the Sleep Country purchase

Fairfax has 5 income streams that drives its earnings. The first 4 are:

- Underwriting profit
- Interest and dividend income
- Share of profit of associates
- Investment gains

The 5th income stream is 'non-insurance consolidated companies.' This is the smallest income stream. But since 2022, Fairfax has been aggressively building out this collection of holdings:

- 2022: Recipe take private = $342 million
- 2022: Grivalia Hospitality = $195 million
- 2023: Meadow Foods (UK) = purchase price unknown
- 2024: Sleep Country = $880.6 million
- 2024: Peak Achievement = purchase price unknown (expected to close in Q4, 2024)

Wade Burton's comments on Fairfax's Q3-2024 conference call:

"Looking back over the last two years, we've made three significant long term equity investments, one in Meadow Dairy, a dominant milk ingredients company in the U.K. that is doing very well; another in Sleep Country, a dominant mattress distributor and retailer in Canada; and now a third, Peak, a dominant sporting goods company focused on hockey and lacrosse. All immediately are or will contribute to our earnings, and we believe all will continue to contribute more and more as their businesses progress."

With the Sleep Country and Peak Achievement purchases, the size of the 'non-insurance consolidated companies' bucket of holdings has likely reached critical mass. The size of the earnings generated by this group of companies has now become a meaningful contributor to Fairfax's total results. From a run rate today of about $150 million annually, earnings could increase to over $300 million annually as soon as 2025 or 2026. And it is poised to be Fairfax's fastest growing income stream in the coming years.

Jen Allen's comments on Fairfax's Q3-2024 conference call:

"As Wade noted, with our recently announced Sleep Country and Peak Achievement transactions, we expect the operating income from our non- insurance companies reporting segment will grow in the future periods, reflecting the operating income diversity these investments will add to the segment."

This 5th income stream provides Fairfax with many structural and strategic benefits:

- Earnings diversification: The earnings from this income stream are not correlated with the P/C insurance cycle.

- Liquidity: These holdings provide Fairfax with an important source of liquidity - holdings could be sold if Fairfax needed cash.
- Capital allocation benefits: Retained earnings from the various holdings can be re-invested into the best available opportunity within the Fairfax organization.

An important trend at Fairfax over the past 6 years with its equity portfolio has been a steady shift from public to private holdings. It will be interesting to see if this trend continues in the coming years.

The benefits of being a private company under the Fairfax umbrella

Being a publicly traded company has big disadvantages. The CEO must spend a great deal of their time with public relations / keeping Wall/Bay Street happy. And the business has to be run with a short-term focus (like hitting the 'expected' quarterly number).

As a private company under the Fairfax umbrella, management can focus on running the business for the long term. And Fairfax is there to help with capital allocation.

Understanding value creation at Fairfax moving forward

There are problems with the 'non-insurance consolidated companies' bucket of holdings at Fairfax.

1. The information that is available to shareholders on these holdings is pretty limited. We usually only get a top line summary once per quarter. Often 2 or more companies are grouped together, making it even more difficult to understand what is going on under the hood (fundamentals etc).
2. This makes it quite difficult to understand the change in intrinsic value that is happening with each of the holdings, especially over a couple of years.

As this bucket of holdings increases in size and importance, the lack of information will likely start to create a Berkshire Hathaway type of problem for Fairfax: the economic value of the holdings will increase at a faster rate than the accounting value captured in book value. Over time, book value will become more understated / less relevant as a tool to use to value Fairfax.

However, there might be a silver lining for investors. Over time, Fairfax does tend to find creative ways to surface and recognize value that is hiding within its collection of businesses (in earnings and book value).

Sleep Country 2023 Annual Report

https://filecache.investorroom.com/mr5ir_sleepcountry/345/SCCHI_AR_2023_vX_CMYK.pdf

Thomas Cook (India) Limited – THOMASCOOK.BO

March 15, 2025

Comments from Prem about Thomas Cook India from the 2024AR.

Under the outstanding leadership of Madhavan Menon, Thomas Cook has emerged well out of the pandemic and continued to build on the turnaround achieved in 2023. We are pleased to report that its net revenue of $246 million and pre-tax profit of $42 million in 2024 grew by 13% and 25%, respectively. The many IT-led efficiencies and cost rationalizations are finally beginning to deliver results. Pre-tax profit has grown more than 555% from pre- pandemic levels while the topline grew by only 2% in the same period. Thomas Cook's stock price was up another 45% in 2024 after its 90% increase in 2023.Madhavan was the main reason behind our acquisition of Thomas Cook in 2012 as he was already successfully leading Thomas Cook for over 12 years. Thomas Cook served as a vehicle for further expansion in India until Fairfax India came into being. Madhavan has been an outstanding leader for Fairfax in India contributing to our Indian journey in many ways, including the international expansion of Thomas Cook and the purchase and nurturing of Quess and Sterling Resorts. He also led our efforts to install 1,400 dialysis machines on the way to 2,000, supporting 354 dialysis centres, across 28 states and more than 30% of India's rural population. Recently, Madhavan expressed his desire to retire from his executive role upon the completion in May 2025 of 25 years of leading Thomas Cook. We have accepted his decision with much reluctance. We wish him, his wife Lili, and his family a very happy retirement. Mahesh Iyer, the CEO of Thomas Cook India, who has been with Thomas Cook for 30 years, will assume the responsibility for the group while Madhavan will continue as non-executive Chairman. We expect the transition to be smooth and wish Mahesh much success.

Sterling Holiday Resorts, a subsidiary of Thomas Cook, remains a premier Leisure Hospitality Brand in India with 57 resorts, 48 destinations and more than 3,100 rooms, in addition to offering Vacation Time Share. Under the strong leadership of Vikram Lalwani, Sterling had record results in 2024 with 16% growth in revenue and 15% growth in pre-tax profit. Sterling continues to grow on an asset-light model adding a resort a month for the last 18 months with a strong pipeline into 2025 for additional growth. This has resulted in Sterling now being ranked amongst the top 10 brands in India and top 14 in terms of number of resorts and hotels. The company will further scale up its destination presence in leisure, tier 2 and tier 3 destinations in India. The brand has also garnered industry and customer recognition with Tripadvisor, Travel + Leisure India's Best, Hospitality Horizon Top Luxury Resort in India and Today's Traveller Awards for the fastest-growing hospitality brand in India. Sterling has a bright future ahead under Vikram's leadership.

Prem Watsa – Fairfax 2024AR

Updated June 19, 2024

Thomas Cook (India) Limited (TCIL) has had a pretty spectacular start to 2024:

- Stock is up 74% to June 19.

Fairfax's position in TCIC:

- Market value = $868 million (June 19, 2024)
  - TCIC is now Fairfax's 5th largest equity position.
- Carrying value = $214 million (March 31, 2024)
- Excess of MV over CV = $654 million. This is not captured in Fairfax's book value.

Fairfax and Thomas Cook India

YTD Change in Market Value of Position	Shares	Market Value			Carrying Value	Excess MV to CV
	mn	INR	US$	Total $	Total $	Total $
Dec 31, 2023	300.3	₹ 138.50	$1.66	$499	$201	$298
Mar 31, 2024	300.3	₹ 167.35	$2.01	$603	$214	$389
Jun 19, 2024	**300.3**	**₹ 241.05**	**$2.89**	**$868**	**$214**	**$654**
YTD Change (Jan 1 to June 19)				**$369**		**$356**
				74%		

What is the reason for the spike in TCIC stock?

Travel in India continues to grow at a very fast clip:

- https://nsearchives.nseindia.com/corporate/THOMASCOOK_18062024122102_SEINTIMATION.pdf

Thomas Cook India and SOTC Travel see significant growth in Domestic Travel demand

Surpass full CY 2023 domestic travel numbers in first 6 months of CY 2024

Release India Domestic Travel Trends

- **Top Destinations: Kashmir, North East, Andamans, Kerala and Goa**
- **Summer demand up by 30% vs last year; extended booking season due to elections**
- **Higher average spends: up by 25% over last year**
- **Longer duration of stay: while short breaks 4 to 5 nights remain popular, significant growth in long stays of 15 days**
- **Shift in Traveller Preferences: more opting for higher category accommodation; prioritising in-hotel experiences like spa, wellness and dining**
- **Rise in experience-led travel: outdoor, soft adventure, biking trips, safari holidays, domestic cruises, culinary trails, sporting events, music festivals, etc**
- **Spiritual/ Pilgrimage Tourism on high growth trajectory - over 45% vs pre-pandemic**

Mumbai, June 18, 2024: Thomas Cook (India) Limited - India's leading omnichannel travel services company and its Group Company, SOTC Travel, latest insights on domestic tourism.

Who is TCIL?

TCIL is the leading omnichannel travel company in India offering a broad spectrum of services including Foreign Exchange, Corporate Travel, MICE, Leisure Travel, Value Added Services and Visa Services.

Company presentation: business results to Sept 30, 2023 (scroll down after clicking link)

https://resources.thomascook.in/downloads/SEINTIMATIONSinvestorpresenation.pdf?_gl=1*1tufk2e*_ga*NjU3NjA5NzI4LjE3MDE3NTMyMzY.*_ga_FKZBDJSK02*MTcwMTc1MzIzNi4xLjEuMTcwMTc1MzM0Mi41OS4wLjA.

How much of TCIL does Fairfax own?

At December 31, 2023, Fairfax owned 300.3 million shares, or 63.8%, of TCIL.

Fairfax's Ownership Position in Thomas Cook India (Dec 4, 2023)		shares mn
TCI	Total Shares Outstanding	470.4
Fairfax	Total Shares Owned	300.3
	Ownership share	63.8%

Accounting: Market Value (MV) and Carrying Value (CV)

Given Fairfax owns more than 50% of TCIL, from an accounting perspective, TCIL is valued in Fairfax's financial statements at carrying value and not market value.

Background on Fairfax's additional investment in TCIL in 2021

In 2021, TCIL needed some cash to help it get through Covid and Fairfax stepped up with a $60 million preferred share investment.

"During 2021, Thomas Cook India raised $60 million from Fairfax through optionally convertible redeemable preference shares with a 10.7% dividend yield, a seven-year tenure and an option to convert into ordinary shares of the company at 47.30 rupees per share within 18 months from the date of issuance. Thomas Cook India chose to convert the entire amount over two tranches resulting in Fairfax's ownership increasing to 73.3%." *Fairfax 2022AR*

At the time, I am sure a lot of Fairfax investors questioned what the company was doing - was this an example of Fairfax throwing good money after bad? Of doubling down yet again on a bad business? Investors who thought this were wrong. Very wrong.

On its $60 million additional investment in TCIL in 2021, Fairfax is up about $104 million or 173% over the past 2.5 years. That is a terrific return. It was an opportunistic deal for Fairfax. But also, much needed at the time by TCIL.

Fairfax's Return on $60 mn Capital Injection to TCIL During Covid					
		Amount	Shares	Amount	
US$		US$ mn	mn	per share	
2021 & 2022	Investment	$60	92.1	$0.65	
Dec 1, 2023	Sale	$67	40.0	$1.675	
Dec 4, 2023	Balance	$97	52.1	$1.86	
US$		Value	Cost	Gain	%
Dec 4, 2023	Total	$164	$60	$104	173%

The big picture

The financial benefit for Fairfax of this investment made during Covid goes well beyond the gains from the $60 million capital infusion into TCIL. The investment gave TCIL valuable financial breathing room during Covid and allowed them to right-size their operations - TCI aggressively cut costs. With its travel businesses rebounding strongly in 2023, the much lower cost base is now spiking profits at TCIL.

"Thomas Cook India implemented extensive cost saving initiatives combined with enhanced automation to mitigate the drop in business and improve profitability as normalcy returns. We are pleased to note that total costs were down 40% compared to pre-pandemic levels, while a permanent saving of 20% in overheads compared to the pre-pandemic levels is envisaged."

Prem Watsa – Fairfax 2022AR

Covid also caused Sterling Resorts, owned by TCIL, to lower costs and re-imagine its business model. The results at this subsidiary at TCI have been extraordinary and are another reason profit is spiking at TCIL in 2023.

Comments from Prem about Sterling Resorts from the 2021AR.

"You will recall from my letter in 2014 that Thomas Cook acquired Sterling Resorts in 2014, mainly because of Ramesh Ramanathan, the CEO of the company. As you can imagine, Sterling faced difficult times in the last two years during the COVID-19-inspired lockdowns. Ramesh did a remarkable job in managing cash flow, allowing the company to stay self-sufficient throughout this period. Also, Ramesh used this time to reorient Sterling's business model and transform it into a holiday experience company." *Prem Watsa – Fairfax 2021AR*

Comments from Prem about Sterling Resorts from the 2022AR.

"Sterling Resorts, a subsidiary of Thomas Cook India, reported its best ever results, thriving as it remained a premier leisure hospitality brand in India with 39 resorts, 37 destinations and more than 2,300 rooms besides offering vacation time share. You will recall that my letter last year reported on

the leadership transition at Sterling, and we are happy to report the smooth transition from Ramesh Ramanathan to Vikram Lalvani, with excellent results achieved at Sterling during the year. Under Vikram's leadership, Sterling emerged out of two years of pandemic with a revival in the resort business in 2022 surpassing the performance of the pre-pandemic period, despite some impact due to the third wave of COVID in Q1, reporting 18% growth in revenue over the year 2019 and 21% over 2021. Its EBITDA of $15 million in 2022 is over fifteen times the $1 million it reported in 2019, and it grew 66% over 2021 on a normalised basis. The operating free cash flow doubled during the period. It ended 2022 with surplus cash and investments of $11 million besides achieving debt reduction of $4 million during the year. Sterling is focused on scaling the resort business by increasing non-member occupancies, boosting revenue from room rates and increasing food and beverage sales. Non-profitable resorts are being dropped from the portfolio, alongside a decreased focus on volume in favour of quality. With the Sterling experience getting appreciation from non-members, the focus is going to be on the quality of growth and enhancing the brand experience at the same time." *Prem Watsa – Fairfax 2022AR*

Fairfax demonstrates it is a very good partner

TCIL is good example of a Fairfax equity holding that was negatively impacted by Covid (BIAL and Recipe are two other Fairfax holdings that were also severely affected by Covid). Fairfax supported the company when times were tough. TCIL got to work and has emerged today stronger (and more profitable) than ever. Fairfax shareholders are now reaping the reward.

An earnings turnaround at equity holdings negatively impacted by Covid is another reason why reported earnings at Fairfax continues to 'surprise' to the upside. A headwind to reported earnings for Fairfax in 2020 and 2021 has now become a tailwind in 2023 and 2024.

Comments from Prem about Thomas Cook India from the 2022AR.

"We are happy to note a substantial recovery in Thomas Cook India's businesses during 2022. With excellent leadership by Madhavan Menon, Thomas Cook India exited the year reporting a 90% recovery in its forex business, 79% recovery in its outbound travel business and 84% recovery in its inbound travel business. This is following a difficult year in 2020 when COVID-19 caused its travel business to decline by 90% and its forex business to decline by 75%, and an incipient recovery of 53% in forex business and 27% in travel business in 2021. Business recovery combined with cost reductions resulted in its results improving – a pre-tax loss of $2 million in 2022 compared to a pre-tax loss of $46 million in 2021." *Prem Watsa – Fairfax 2022AR*

Below is a brief history of Fairfax's investment in Thomas Cook India:

TCIL was Fairfax's first large purchase in India. In 2012, Fairfax purchased 87.1% for $173 million.

TCIL subsequently made three large acquisitions to round out its portfolio of assets:

- Feb 2014: Sterling Resorts for $140 million plus shares (Fairfax invested $81 million).
- Aug 2015: Kuoni India and Kuoni Hong Kong for $64 million

- March 2019: Digiphoto Entertainment Imaging (51% interest) for $21 million.

Comments from Prem about Thomas Cook India from the 2020AR.

> "As you will recall, our first major acquisition in India was the purchase of a 77% interest (later reduced to 67%) in Thomas Cook India, led by Madhavan Menon. Thomas Cook, first set up in India in 1881, is the leading integrated travel and travel-related financial services company in India, offering, through its 4,700 employees, a broad spectrum of services that include foreign exchange, corporate travel, leisure travel, insurance, visa and passport services and e-business. With the 2015 purchase of Kuoni's Indian travel business and then its operations all over the world, Thomas Cook India is today one of the largest high-end travel service provider networks headquartered in the Asia-Pacific region. With the 2019 purchase of Digiphoto Entertainment Imaging ("DEI"), Thomas Cook has emerged as a complete travel solutions company. DEI provides imaging solutions for the entertainment industry, giving Thomas Cook India an opportunity to package DEI products with Thomas Cook Tours. Established in 2004, DEI has offices throughout the Far East, as well as in the Middle East, India and the U.S., and has a network of 130 entertainment partners." *Fairfax 2020AR*

The IKYA/Quess Home Run: In 2012, Fairfax designated TCIL as the vehicle through which it was going to be investing in India. In May of 2013, TCIL purchased a 77.3% interest in IKYA (renamed Quess) for $47 million. In 2017, TCIL sold 5.4% of Quess for $97 million. In December 2019, TCIL spun out all of Quess. Fairfax current owns 35% of Quess.

Strategic Shift: Modi's election in 2014 caused Fairfax to shift its strategy in India. Fairfax wanted to accelerate its investments and TCIL's structure was too limiting. In 2015, Fairfax India was born and it was decided this platform would house all of Fairfax's future non-insurance investments in India. However, legacy investments like TCIL and Quess would continue to be owned directly by Fairfax. Fairfax also owns Digit directly - its insurance vehicle in India.

A short summary of Fairfax's ownership of TCIL shares

Change in Fairfax's Ownership In Thomas Cook India

	Shares		
	mn	%	
Dec 31, 2020	248.2	66.8%	
Dec 31, 2022	340.3	72.3%	Acquired 92.1 million shares at INR 47.3
Dec 1, 2023	300.3	63.8%	Sold 40 million shares at INR 140

Other Equity Holdings

- **BDT Capital Partners**
- **Marval Guru Fund**
- **ShawKwei & Partners**

BDT Capital Partners – A successful 15-year partnership with Byron Trott

March 15, 2025

Comments from Prem about BDT from Fairfax's 2024AR.

> We continue to invest with Byron Trott through various BDT Capital Funds. Since 2009, we have invested $1.1 billion, have received $1.1 billion in distributions and still have investments with a year-end market value of $729 million. Byron and his team have generated fantastic long-term returns for Fairfax, and we very much look forward to our continued partnership.
>
> *Prem Watsa – Fairfax 2024AR*

October 2023

Who is BDT?

BDT is a high-quality merchant bank focused on serving the needs of privately held, family run businesses across the world.

> "BDT & MSD Partners is a merchant bank with an advisory and investment platform built to serve the distinct needs of business owners and strategic, long-term investors. We are distinguished by our decades of experience advising at the intersection of founders, families, and businesses, as well as by our differentiated capital base and culture of aligned investing. Since 2010, our affiliated funds have deployed more than $50 billion across our investment strategies." *https://bdtmsd.com*

What is Fairfax's investment in BDT?

In the 2022AR, Prem said Fairfax's investment in BDT had a market value of $508 million. At the time, this was Fairfax's 7th largest equity holding by size (representing about 3.4% of Fairfax's total equity portfolio of $14.9 billion).

Comments from Prem about BDT from the 2022AR.

"We continue to invest with Byron Trott through various BDT Capital funds. Since 2009, we have invested $772 million, have received $960 million in distributions and still have investments with a year-end market value of $508 million. Byron and his team have generated fantastic long-term returns for Fairfax, and we very much look forward to our continued partnership." *Fairfax 2022AR*

Additional information on Byron Trott, CEO of BDT

Of interest, one of Brian Trott's mentors was Warren Buffett (he mentions this in the video).

University of Chicago Booth School of Business: Distinguished Speaker Series
- May 28, 2020
- YouTube video (59 minutes)

Byron Trott - chairman and CEO, BDT Capital Partners

Summary: Byron speaks about his 27-year career at Goldman Sachs and his experience founding his own firm, BDT Capital Partners on May 26, 2020.

https://youtu.be/DsQ7NkMUCSE?si=SS3vjqponBGrtb9_

Marval Guru Fund – Ben Watsa – Looking like a chip off the old block

June 11, 2025

The Marval Guru Fund is run by Ben Watsa, the son of Prem Watsa. Ben sits on Fairfax's board and he is also Chairman of Fairfax India. This is a related party holding for Fairfax.

How has the Marval Guru (India) Fund performed over the past 5 years?

Very well. Its 5-Year CAGR is 30%. This puts it #1 out of 3,200 Canadian institutional funds.

Marval Guru (India) Fund Ranks #1 in Canada with 30% 5-Year Annual Net Return

TORONTO, June 11, 2025 /CNW/ - Marval Capital Ltd. ("Marval") announced today that its Marval Guru Fund ("the Fund") is the top-performing institutional fund in Canada based on its five-year compound annual net return. The Fund, now six years old, focuses on Indian small and mid-cap equities. With over $400 million in assets under management, it is one of the largest small- and mid-cap India-focused funds in the world outside of India. After reaching its five-year milestone in May 2024, the Fund has remained ranked among Canada's top five institutional funds for eight consecutive months.

PERFORMANCE HIGHLIGHTS

#1 in Canada: Ranked first out of more than 3,200 funds in the Fundata Institutional Fund Database of Canada. Notably, over the last ten years, 99% of funds in this database have not achieved a total net return as high as the Fund's five-year total return of 268%.

#1 India-Focused Fund (Outside India): Ranked first among 50 institutional-grade India-focused funds available outside of India (across Asia, Europe, and the U.S.), outperforming the next best fund by 3% in compound annual net return over five years. Notably, over the last ten years, 88% of funds in this database have not achieved a total net return as high as the Fund's five-year total return.

OUTLOOK

"We are profoundly humbled and deeply grateful. This milestone is not ours alone; it belongs to our mentors, our dedicated team, our valued investors, our service partners, and our families, whose guidance and generosity have shaped every step," said Ben Watsa, Founder & CEO of Marval Capital Ltd. and CIO of the Marval Guru Fund. "While we pause to acknowledge this achievement, we see it as just the beginning on India's journey to becoming a developed economy. Our vision is to become the world's most trusted partner for India's growth. We hope this moment will help us forge new relationships and bring our distinctive, long-term investment approach to more investors around the globe, always focused on safeguarding and growing their capital."

https://www.newswire.ca/news-releases/marval-guru-india-fund-ranks-1-in-canada-with-30-5-year-annual-net-return-808690578.html

In Q3, 2024, Fairfax invested $100.4 million in the Marval Guru Fund. Fairfax has been invested in the fund since 2017, when they made an initial investment of $50 million.

Marval Guru Fund - https://www.marvalcapital.com

We offer a long-only equity fund to capture small and mid-cap. investment opportunities in India:

The Marval Guru Fund has strategically developed a '20-year portfolio' with the vision of capitalizing on India's transition from an emerging to a developed economy. This portfolio primarily focuses on investing in high-quality companies within the small and mid-cap sectors. These selected companies are characterized by their dominant market shares, robust generation of free cash flow, minimal to no debt usage, exceptional returns on invested capital, and are acquired at valuations that reflect their true worth. In the context of India's rapidly growing economy, small and mid-sized enterprises that occupy leadership positions are poised for significant growth and compounding opportunities over the coming decades. In most instances, the founders of our holdings have a significant ownership stake aligning their economic interests with the Fund.

Portfolio objective: To preserve capital during the market's euphoric periods and grow capital over the long-term by being opportunistic during periods of weak company sentiment or overly pessimistic markets.

Investor suitability for our funds: For patient investors who can handle considerable amounts of volatility and have a long-time horizon. The funds are concentrated and invested in small and mid-cap. equities which fluctuate more than the leading indices that hold sizeable portions in large companies.

Details on the investment from Fairfax's Q3-2024 interim earnings report:

During the third quarter of 2024 an insurance subsidiary of the company invested $100.4 in the Marval Guru Fund at the applicable net asset value of the fund on the transaction date, in addition to the company's previously disclosed investment of $50.0 in 2017, pursuant to an investment management contract whereby Benjamin Watsa, the CEO, CIO and Founder of Marval Capital Ltd. and a member of the company's Board of Directors and the son of Prem Watsa, the company's Chairman and CEO and effectively controlling shareholder, manages the investments in the fund.

Fairfax's Q3 interim earnings report

Commentary on the investment from Fairfax's Q3-2024 conference call:

Question: Unknown Speaker

Good morning team. I've been an investor for over four years, and it's been a happy investment so far. I want to congratulate on the fantastic quarter.

I had a question on the investment of an insurance subsidiary. In the report you mentioned about $100 million investment in Marval Fund, so I wanted to ask if you could please expand on that, and also you mentioned about a $50 million investment in the same fund in 2017, so was curious to know how has that performed since then from an annualized perspective. Thank you so much.

Answer: Peter Clarke

Sure, yes. Marval Fund, it's an investment fund, and we initially invested a number of years ago. Simply put, the results have been outstanding over the time period. Over the last five years, the fund has produced a return of over 22%, and it is a related party transaction, so that's why we disclosed it. For related party transactions, we have policies and procedures in place that must be followed, and one of those is the disclosure, and that's why it was in our interim report. *Fairfax's Q3-2024 conference call*

ShawKwei & Partners

March 15, 2025

Comments from Prem about ShawKwei from Fairfax's 2024AR.

"Since 2008 we have invested with founder Kyle Shaw and his private equity firm ShawKwei & Partners. ShawKwei takes significant stakes in middle-market industrial, manufacturing and service companies across Asia, partnering with management to improve their businesses. We have invested $550 million in two funds, have received cash distributions of $232 million and have a remaining value of $542 million at year-end. The returns to date are primarily from our investment in the 2010 vintage fund, which increased 33% in 2024 and has generated a 13% compound annual return since 2010.The 2017 vintage fund decreased 3.8% in value in 2024 and has a compound annual return of 0.5% since inception. We expect Kyle to do well in the next few years." *Prem Watsa - Fairfax 2022AR*

Equity Holdings – Sector Review

In this section we will review Fairfax's equity holdings in a slightly different way. We will look at them from a sector perspective. This will give investors another piece of useful information to help them understand how Fairfax's equity portfolio is performing and how it is positioned.

Fairfax's Resource Holdings - An Underappreciated Engine Inside the Investment Portfolio

March 1, 2026

Fairfax has had an extraordinary five-year run.

Why?

Because it has executed at a high level across its two core business engines:

- P/C insurance
- Investment management

Layered on top of that is strategic, disciplined and opportunistic capital allocation.

Much of what is driving value creation today is happening "under the hood" — and is not widely understood. Fairfax is frequently analyzed as a traditional P/C insurer.

It isn't.

This article focuses on one of the most misunderstood components of Fairfax's investment engine: its resource holdings.

The Investment Portfolio: Context Matters

Fairfax's total investment portfolio is approximately $76 billion:

- Fixed Income: ~$50B
- Equities: ~$26B

Within the $26B equity portfolio sits a concentrated, high-conviction sleeve:

Fairfax's Resource Holdings

- 11 identifiable positions
- ~$3.9B market value (Dec 31, 2025)
- ~15% of total equity portfolio

The holdings span:

- Oil & gas
- Gold & copper mining
- Metals and materials

This is not incidental exposure. It is meaningful capital deployed with intent.

Fairfax: A Summary of the Resource Holdings

March 1, 2026

	Ticker	Ownership Stake %	Shares	MV 2025YE	Holding Type	Accounting Treatment	Sector & Region
Orla Mining	OLA.TO	18.6%	76.9	$1,035	Public	M to M	Gold producer - NA
Foran Mining (1)	FOM.TO	22.0%	121.9	$411	Public	M to M	Copper - Canada
Greenfire - WEF III (2)	GFR.TO	55.8%	70.0	$334	Public	M to M	Oil producer - Canada
Strathcona Res. (2)	SCR.TO	7.3%	15.5	$320	Public	M to M	Oil producer - Canada
Occidental Petroleum	OXY		6.0	$248	Public	M to M	Oil and gas - US
EXCO Resources (3)		49.3%	22.9	$478	Private	Associate	Gas producer - US
Ensign Energy	ESI.TO	18.2%	36.6	$68	Public	M to M	Drilling - oil and gas
Helmerich & Payne	HP		1.2	$34	Public	M to M	Drilling - oil and gas
Altius Minerals	ALS.TO	14.4%	6.7	$199	Public	M to M	Royalties - diversified
Metlen	MTLN.AT	8.3%	11.9	$612	Public	M to M	Energy and metals
Cleveland Cliffs	CLF		14.9	$198	Public	M to M	Steel producer - US
Total				**$3,937**			

1. Foran is in the process of being acquired by El Dorado Gold
2. Greenfire and Strathcona ownership stake is an estimate
3. EXCO MV is CV at Sept 30, 2025

Why Own Resource Stocks?

1. As Investments

Fairfax is a value investor – broadly defined.

Its mandate is not stylistic purity. It goes where value exists, not where consensus is comfortable. When assets are mispriced and capital is scarce, Fairfax steps in.

Resource equities have periodically offered exactly that setup.

2. As a Strategic Hedge

Real Return Risk in a Bond-Heavy Portfolio

Fairfax holds ~$50B in fixed income securities.

Even when held to maturity:

- Higher inflation erodes real purchasing power.
- Nominal coupons lose real value.

For a large bond portfolio, the primary threat is unexpected inflation, not expected inflation.

Commodities historically respond positively to:

- Rising inflation
- Supply constraints
- Geopolitical fragmentation

In inflationary or resource-constrained environments, resource producers can function as a natural hedge.

This is particularly relevant in a world transitioning from:

- Globalization
- Disinflation
- Ultra-low rates

…to something structurally different.

Owning resource equities is not just offense (generating returns).
It is also defense (balance sheet protection).

This dual function is widely underappreciated.

Partnering With Proven Operators ("Betting on the Jockey")

Fairfax is not speculating blindly. It allocates capital alongside experienced operators with deep domain expertise and strong long-term track records.

Key relationships include:

- Orla Mining and Foran Mining
  Pierre Lassonde – Co-founder of Franco-Nevada
- Strathcona Resources and Greenfire Resources
  Adam Waterous – Former Head of Global Investment Banking at Scotiabank
- Occidental Petroleum
  Backed heavily by Berkshire Hathaway (largest shareholder)
- Ensign Energy Services
  Murray Edwards – Founder and Chairman of Canadian Natural Resources

- Altius Minerals
  Brian Dalton – Founder & CEO
- Metlen Energy and Metals
  Evangelos Mytilineos – Founder & Chairman

There is a pattern here:

Fairfax partners with proven capital allocators and operators who understand their industries.

This is deliberate capital allocation, not macro speculation.

Jurisdictional Risk: A Quiet Structural Advantage

The vast majority of production sits in North America.

In a world of:

- Resource nationalism
- Regulatory unpredictability
- Political instability

North American exposure provides structural risk mitigation.

This appears intentional. (Smart.)

The Critics

Detractors often dismiss Fairfax's resource exposure reflexively:

"Resource stocks are terrible investments."

But many critics:

- Do not follow the specific companies
- Do not understand the operating partners
- Do not analyze the capital allocation history
- Do not evaluate actual performance
- Do not recognize the strategic hedge component

They think Fairfax is being reckless. When the opposite is true.

Opinions formed without facts rarely age well.

The Facts: Performance

Over the past ~14 months, Fairfax's resource holdings have generated approximately:

- $1.85B in gains (~67% total return)

Breakdown:

- 2025: $1.06B (~38%)
- 2026 YTD (to Feb 27): $788M (~23%)

That is exceptional performance.

Exchange Rates			Euro/US$	1.03			1.17			1.18				
			C$/US$	0.697			0.729			0.73				
Fairfax's Commodity Holdings: Very Rough Estimate of Total Shareholder Return in 2025 and YTD 2026													YoY Change	
Updated: Feb 27, 2026				2024YE			2025YE			Feb 27, 2026			2025	YTD '26
			Shares	C$	US$	Total $	C$	US$	Total $	C$	US$	Total $	$ m	$ m
Orla Mining	Gold	18.6%	76.9	$7.96	$5.55	$427	$18.46	$13.46	$1,035	$27.00	$19.71	$1,516	$608	$481
Orla Mining - sale Dec 2025			25.0	$7.96	$5.55	$139	$17.64	$12.64	$316	n/a	n/a	n/a	$177	n/a
Foran Mining	Copper	22.6%	96.9	$3.93	$2.74	$265	$5.04	$3.67	$356	$7.00	$5.11	$495	$91	$139
Foran Mining - add May 2025			25.0	n/a	n/a	n/a	$3.00	$2.19	$55	$7.00	$5.11	$128	n/a	$73
Greenfire (WEF III)	Oil	55.8%	70.0	$10.14	$7.07	$495	$6.55	$4.77	$334	$8.09	$5.91	$413	-$160	$79
Strathcona Resources	Oil	7.3%	15.5	$31.51	$21.96	$340	$28.33	$20.65	$320	$29.80	$21.75	$337	-$20	$17
Strathcona - Dividend Dec 2025			15.5	n/a	n/a	n/a	$10.00	$7.29	$113	n/a	n/a	n/a	$113	n/a
Occidental Petrol.	Oil & Gas		6.02	n/a	$49.41	$297	n/a	$41.12	$248	n/a	$53.08	$320	-$50	$72
Ensign Energy	Driller	18.2%	36.6	$2.98	$2.08	$76	$2.54	$1.85	$68	$3.62	$2.64	$97	-$8	$29
Helmerich & Payne	Driller		1.17	n/a	$32.02	$38	n/a	$28.68	$34	n/a	$35.22	$41	-$4	$8
Altius Minerals	Royalies	14.4%	6.7	$26.62	$18.55	$124	$40.84	$29.77	$199	$48.19	$35.18	$236	$75	$36
Metlen	Misc	8.3%	9.19	€ 33.52	$34.53	$317	€ 43.80	$51.25	$471	€ 35.80	$42.24	$388	$154	-$83
Metlen - Add March 2025			2.75	€ 40.00	$41.20	$113	€ 43.80	$51.25	$141	€ 35.80	$42.24	$116	$28	-$25
Cleveland Cliffs	Steel		14.9	n/a	$9.40	$140	n/a	$13.28	$198	n/a	$10.66	$159	$58	-$39
Total						**$2,772**			**$3,887**			**$4,246**	**$1,061**	**$788**
Total - Adjusted for sales and dividends						**$2,772**			**$3,458**			**$4,246**	**38%**	**23%**

Just the Beginning?

Importantly, these exceptional returns do not necessarily represent late-cycle excess.

There is a growing narrative that capital is rotating from asset-light, high-multiple businesses toward:

- Industrials
- Materials
- Energy

On a recent episode of The Compound and Friends, Strategas Research's Chris Verrone and Daniel Clifton discussed what they view as a potential regime shift.

Daniel Clifton summarized it as a move away from:

- Post–Berlin Wall globalization
- Falling inflation and rates
- Unipolar stability

…toward a multipolar, resource-constrained world.

If that thesis is correct, Fairfax is already positioned.

Broad-Based Success

> "In this business, if you're good, you're right six times out of ten. You're never going to be right nine times out of ten." *Peter Lynch*

Nine of ten of Fairfax resource holdings are up over the past 14 months.

Based on Peter Lynch's rule of thumb, the team at Fairfax is looking pretty good with its execution in recent years.

Opportunistic Monetizations: Discipline on the Exit

Fairfax has not simply held resource assets. It has monetized when valuations became compelling.

1. Resolute Forest Products (2022)

In July 2022, Fairfax sold Resolute Forest Products to Paper Excellence for:

- $665.6M ($20.50/share)

Context matters:

- March 2020 price: ~$1.20/share.
- Sale price (two years later): $20.50.

What did Fairfax accomplish?

- Sold near peak lumber pricing
- Redeployed capital
- Removed a historically poor investment at a opportune time

2. Stelco (2024)

Sold to Cleveland-Cliffs in Q4 2024.

- Purchase (2018): $193M
- Proceeds (2024): $639M
- Dividends received: $122M
- Total return: $568M

- CAGR: 25.5% over 6 years

Disciplined entry. Disciplined exit.

3. Orla Mining (Partial Sale – 2025)

On December 5, 2025, Fairfax sold 25M shares of Orla:

- Proceeds: $316M ($12.64/share)
- Cost: ~$98M (~$3.94/share)
- Return: ~$218M, or ~220%

Importantly:

Fairfax still owns 76.9M shares valued at ~$1.5B (Feb 27, 2026).
This is active portfolio management — not passive holding.

Strategic Implications

Several conclusions emerge:

1. Fairfax's resource exposure is intentional, not incidental.
2. It reflects macro awareness and valuation discipline.
3. It is implemented alongside proven operators.
4. Execution has been strong.
5. Monetizations demonstrate capital allocation skill.

Fairfax's leadership has invested through:

- The 1970s inflation era
- The commodity cycles of the 1980s
- The globalization boom
- The post-2008 monetary regime

That experience matters.

The Bigger Picture

Fairfax does not own resource companies to "play commodities."

It owns them to build long-term intrinsic value per share.

The resource sleeve is one component of a broader investment engine designed to:

- Protect purchasing power

- Capture cyclical opportunity
- Compound capital opportunistically

When evaluating Fairfax, focusing solely on underwriting cycles misses the full picture.

The investment portfolio — particularly the resource sleeve — is an active, high-conviction engine of value creation.

Ignore it at your own risk.

Looking Into the Future

The Compound and Friends with Josh Brown and Michael Batnick, with guests Daniel Clifton and Chris Verrone of Strategas Research – February 27, 2026

https://youtu.be/MV76MRQndTg?si=t25iNq9lu36uZ2Tc

Comments from Chris Verrone and Daniel Clifton, Strategas Research, on a recent episode of The Compound and Friends with Josh Brown and Michael Batnck (37 minute mark):

Chris Verrone: "I think what's so remarkable about this… don't even try to tell me for a second that people are positioned for this."

Michael Batnick: "For what?"

CV: For this revenge of the old economy or the average stuff. I mean, for 15 years, all you've had to do is own the big stuff.

Josh Brown: "Asset light"

CV: "Don't even pretend to tell me this is where the positioning is. Like I am so skeptical when I see the Bank of America Fund Manager survey that says, you know, everyone's, you know, most overweight RSP and underweight Q's. There's just no way.

MB: "No way."

CV: "I'll never forget, this is 6, 7 or 8 years ago. We're doing our macro conference in New York. I'm doing a fireside chat with Byron Wien, late, great Byron Wien, mentor to Jason Treader, to myself, to Dan. I asked, Byron, tell me what you remember about 1982? 1982, as we know, was kind of the top in rates. Rates had started to fall. Equity had started to turn up. And he laughed at me in front of 400 people. And he said, Chris, I didn't know it was 1982 until it was 1985."

JB: "It's so such a great, important point."

CV: "It's so easy in this business to look back with hindsight and say: look at the regime shift. It was so obvious. We're in a regime shift right now. I don't think people are positioned for it. Maybe in like the tactical sense - the tactical book has it on.

JB: "I've been talking about this regime shift as being a new paradigm that has nothing to do with what we're all accustomed to. We live in this world where it's small versus large, value versus growth, tech versus non tech, or defensive versus cyclical. And I think that this trumps all of those paradigms, and it comes down to AI immunity versus not."

CV: "Dan, isn't this the market that the Trump administration wants? Right? They want this revenge of the old stocks."

Daniel Clifton: "…at the risk of giving a narrative here, I think we're shifting out of the post Berlin Wall environment. Berlin Wall went down. The world globalized. Inflation comes down. Interest rates come down. That's why you wanted to own asset light companies. High PE's. Less geopolitical volatility. That's all reversing now."

DC: "We're moving from a unipolar world to a multipolar world, and that means that there's going to be demand for resources. And that's why you want to be in this kind of sector - a long-term shift of being in industrials and materials. Because you want to be able to have access to this in a scarce world. I think we're at the very early stages of this process happening."

A Review of Fairfax's Individual Resource Holdings

April 2024

Let's review each of the individual holdings in a little more detail.

Please note, this review is dated.

EXCO Resources

EXCO Resources is a privately held investment. The company emerged from bankruptcy in 2019. At December 31, 2019, EXCO had a carrying value of $243 million at Fairfax. From 2019 to Q1 2024, Fairfax's 'share of profit' from EXCO has been $223 million. As a result, at Q1 2024, the carrying value EXCO has increased to $454 million, an increase of $211 million or 87% from 2019.

Fairfax - Change in CV of EXCO Resources

US$ million	Fair Value	Carrying Value	Share of Profit
2019	$238	$243	$22
2020	$238	$239	-$5
2021	$267	$195	-$41
2022	$288	$545	$82
2023	$435	$418	$129
Q1 2024	$444	$454	$36
Total			**$223**
Increase in CV since 2019		**$211**	**87%**

Stelco

In November 2018, Fairfax invested US$193 million for a 14.7% stake in Stelco. Fairfax's investment has increased in value by $335 million or 174% over the past 5.5 years.

Fairfax's ownership stake in Stelco has also increased from 14.7% to 23.6%. This has happened despite the fact Fairfax has not purchased any additional shares. Stelco has repurchased 38% of shares outstanding over the past 3.5 years. The CEO of Stelco, Alan Kestenbaum, is a rock star.

M&A activity looks to be heating up in the North American steel sector: Japanese steelmaker, Nippon, agreed in December 2023 to acquire US Steel - offering a 40% premium.

Fairfax - Total Return on Investment in Stelco					
	Transaction Date	Share Price C$	Total Value C$ mn	Total Value US$ mn	
Initial investment in Stelco	Nov 2018	$20.50	$267	$193	
Current market value May 21, 2024		$43.89	$571	$418	
Increase in market value since inception (Nov 2018)				**$225**	**117%**
Regular dividends received since 2018				$42	
Special dividends received since 2018				$68	
Total return on investment since inception (Nov 2018)				**$335**	**174%**

Increase in Fairfax's Ownership of Stelco	Total Stelco	41 month change		FFH %
Date	Shares	shares	%	ownership
31-Dec-20	88.7			14.7%
21-May-24	55.1	-33.6	-38%	23.6%
Stelco has bought back 33.6 million of its shares since 2020.				
Fairfax owns 13 million Stelco shares. Now owns 23.6% of Stelco.				

Mytilineos

Fairfax first invested in Mytilineos in 2012 and 2013. In December 2022 they significantly increased the size of their position (more than doubled it).

We will look at Fairfax's return since they added to their position. In December 2022, Fairfax's investment in Mytilineos had a market value of about $188 million. Fairfax's investment has increased $210 million or 112% over the past 18 months.

Fairfax - Total Return on Investment in Mytilineos Since Dec 2022						
	Transaction Date	Shares million	Shares Price €	Total Value € mn	Total Value US$ mn	
Initial investment - 2012 & 2013		3.99	€ 5.13	€ 20	$22	
Add to position	Dec 2022	2.70	€ 18.50	€ 50	$53	
Exchangeable Bonds	Dec 2022	2.50	€ 20.00	€ 50	$53	
Adjusted total cost		**9.19**	**€ 13.10**	**€ 120**	**$128**	
Estimated value Dec 2022		9.19	€ 19.25	€ 177	$188	
Current market value May 21, 2024		9.19	€ 38.94	€ 358	$389	
Increase in market value since December 2022					**$201**	**107%**
Dividend payments on Altius stock since Dec 2022					9	
Interest payment on Exchangable bond					0	?
Total return on investment since Dec 2022					**$210**	**112%**

Occidental Petroleum

Fairfax built out the majority of their position in Occidental Petroleum in Q1 and Q2 and 2023. Using the average prices supplied in the 13F releases as a guide, my guess is Fairfax's built out its position in OXY at a total cost of about $367 million ($61.00/share). Since Q2 of 2023, Fairfax's investment has increased in value by about $18.7 million or 5.1%.

Fairfax - Total Return on Investment in Occidental Petroleum

	Shares		MV	
	million	Price US$	US$	
Initial investment - Q1 & Q2 2023	6.02	$61.00	$367.2	
Current market value May 21, 2024	6.02	$63.35	$381.4	
Increase in market value since Q2 2023			**$14.1**	**3.9%**
Dividend payments on OXY stock (from June 2023)			$4.6	
Total return on investment since Q2 2023			**$18.7**	**5.1%**

Foran Mining

Beginning in Aug 2021, Fairfax has invested a total of $112 million in Foran Mining. The investment today has a market value of $248 million. Fairfax's position has increased in value by $136 million or 122% over the past 33 months.

This investment is a play on copper. And it is still in the very early innings (their copper mine has not yet begun production). The set-up for this investment looks excellent.

Fairfax - Total Return on Investment in Foran Mining

	Transaction	Shares		Total Value		
	Date	million	Price C$	C$ mn	US$ mn	
Initial investment	Aug 2021	55.6	$1.80	$100	$80	
Exercised warrants	Oct 2022	16.0	$2.09	$33	$24	
Private Placement	Dec 2023	2.4	$4.10	$10	$7	
Adjusted total cost		**74.0**	**$1.94**	**$144**	**$112**	
Current market value May 21, 2024			$4.57	$338	$248	
Increase in market value since inception (August 2021)					**$136**	**122%**

Orla Mining

Orlas is Fairfax's newest resource/commodity investment. Fairfax built up their position in Orla from Q3 2022 to Q1 2024, spending about $204 million. The investment today has a market value of $245 million. The return on Fairfax's investment has been about $41 million or 20%.

Fairfax - Total Return on Investment in Orla Mining					
	Shares		Total Value		
	million	Price C$	C$ mn	US$ mn	
Initial investment - Q3 2022 to Q1 2024	55.65	$4.99	$278	$204	
Current market value May 21, 2024	55.65	$5.99	$333	$245	
Increase in market value since Q3 2022				**$41**	**20%**

Limited Partnership

In their 2023AR, Fairfax reported limited partnerships - oil and gas extraction - with a value of $235.3 million.

During the 2023 year-end conference call Fairfax also mentioned they had an investment in Waterous Energy. The fact Fairfax mentioned Waterous suggests it is a sizeable holding. Waterous Energy holds a big position in - and is the engine behind - Strathcona Resources, the 5th largest oil and gas producer in Canada.

Connecting the dots, there is speculation that Strathcona is the mystery 'oil and gas extraction' holding with a value at Dec 31, 2023 of $235.3 million. Perhaps we get clarity from Fairfax on this holding in the future.

Altius Minerals - a royalty company

In April 2017, Fairfax invested C$100 in preferred securities in Altius Minerals. In 2022, Fairfax exercised the warrants and Altius redeemed the preferred securities. The investment today has a market value of $111 million. Fairfax has also received $21 million in interest and dividend payments. The total return on Fairfax's investment has been $53 million or 67% over the past 7 years.

Fairfax - Total Return on Investment in Altius Minerals						
	Transaction	Shares		Total Value		
	Date	million	Price C$	C$ mn	US$ mn	
Preferred Investment	April 2017			$100	$0	
Exercised warrants	April 2022	6.67	$15.00		$0	
Adjusted total cost		**6.67**	**$15.00**	**$100**	**$79**	
Current market value May 21, 2024			$22.61	$151	$111	
Increase in market value since inception (April 2017)					**$32**	**40%**
Interest payments on preferred securities = 5% (2017-2022)				$25	$18	
Dividend payments on Altius stock (2022 to 2024)				$4	$3	
Total return on investment since inception (April 2017)					**$53**	**67%**
Preferred investment: C$100mn with 5% yield + warrants for 6.67mn shares at C$15/share						

Company Presentations / Overviews

Stelco: Q1 2024 Earnings Call Presentation
- https://s201.q4cdn.com/143749161/files/doc_earnings/2024/q1/presentation/Q1-2024-Earnings-Presentation-FINAL.pdf

Mytilineos: Corporate Presentation October 2023
- https://www.mytilineos.com/media/fpxfna55/mytilineos_corporate_presentation_october_2023.pdf

Occidental Petroleum: Q1 2024 Earnings Call Presentation
- https://www.oxy.com/siteassets/documents/investors/quarterly-earnings/oxy1q24conferencecallslides.pdf

Foran Mining: Corporate Presentation May 2024
- https://foranmining.com/wp-content/uploads/2022/09/Foran-Corporate-Presentation.pdf

Orla Mining: Q1 2024 Update
- https://orlamining.com/site/assets/files/6008/ola_may_q1_2024.pdf

Altius Minerals: Corporate Presentation April 2024
- https://altiusminerals.com/_resources/presentations/corporate-presentation.pdf?v=0.510

Strathcona Resources: Corporate Presentation May 2024
- https://www.strathconaresources.com/wp-content/uploads/2024/05/Strathcona-Corporate-Presentation_May_vFF.pdf

EXCO Resources:
- This is a private holding so there is limited public information available on the company.
- http://www.excoresources.com

Pierre Lassonde: The Founding of Franco-Nevada with James Connor

- https://youtu.be/YMWeAbZQSEE?si=H7ZshbgglmKxycTF

At 2-minute mark, Pierre talks about optionality. Price optionality is well understood. Land optionality is not understood and not calculated. Source of enormous wealth creation for investors.

Chapter 17: Geographies

One of the things that separates Fairfax from many peers is its significant international insurance operations. Fairfax also has extensive international investments. After the US and Canada, India and Greece are the two most important countries for Fairfax.

India – So Many Tailwinds

May 23, 2023

After the US and Canada, India is Fairfax's most important geography. In a world starved for growth, India is expected to be one of the fastest growing economies over the next decade. Morgan Stanley is projecting an economic boom in India (see below). Fairfax has repeatedly said they believe India is best country to invest in today. So, we should expect India to increase in importance for Fairfax investors in the coming years.

Below is a bit of a deep dive on India and Fairfax:

1. India: the big picture

I will then zoom into Fairfax and India

2. Summary of current investments in India
3. History: Insurance investments
4. History: Non-insurance investments
5. People
6. Summary

1.) India: the big picture

India is exceptionally well positioned today:

- demographic tailwind: India has the largest population in the world, and it is very young with a median age of 28.2 years (China's is 39). This should drive higher domestic consumption.
- regulatory tailwind: India has a pro-business government - ease of doing business in India is improving greatly. This should drive investment spending.
- geopolitical tailwind: companies are aggressively looking to diversify supply chains away from China - Apple's plans to shift 25% of iPhone production to India in just one recent example.

Many important building blocks are in place. This should result in strong economic growth for India over the next decade. India looks positioned to finally realize its vast potential - it is no longer just a dream.

Below is a link to a report on India from Morgan Stanley.

India's Impending Economic Boom: India is on track to become the world's third largest economy by 2027, surpassing Japan and Germany, and have the third largest stock market by 2030, thanks to global trends and key investments the country has made in technology and energy.

https://www.morganstanley.com/ideas/investment-opportunities-in-india

The following video was mentioned by Prem in his letter in Fairfax's 2022AR.

The Future of India: Deepak Bagla, Managing Director & CEO, Invest India

https://www.youtube.com/watch?v=45PrXujlQCo

2.) Summary of Fairfax's current investments in India

Fairfax's business model has much more of an international focus than most of its P/C insurance peers. This is true for both insurance and non-insurance investments.

Fairfax does a good job of summarizing for shareholders all their investments in India each year in the annual report. Below is the summary provided in the 2022AR. Key take-aways:

- Insurance investments (Digit) fair value = $2.3 billion
- Non-insurance investments fair value = $1.5 billion

Fairfax has a total of about $15 billion in equity investments. On December 31, 2022, non-insurance investments in India of $1.5 billion represented about 10% of Fairfax's total.

	Date of Initial Investment	Ownership	Cost	Fair Value at December 31, 2022	Compound Annualized Return
Thomas Cook India	Aug-12	73.3%	315	293	10.7%[1]
Fairfax India	Jan-15	41.6%	534	703	4.3%
Digit	Feb-17	49.0%	154	2,278	79.5%
Quess	Dec-19	30.1%	335[2]	222	(7.1)%
Other			365	308	
			1,703	3,804	
Fairfax India's investments					
Bangalore International Airport	Mar-17	54.0%	653	1,234	12.2%
IIFL companies[3]	Dec-15		156	634	19.8%
Sanmar Chemicals	Apr-16	42.9%	199	338	13.2%
CSB Bank	Oct-18	49.7%	170	223	7.5%
Seven Islands	Mar-19	48.5%	84	97	4.0%
NCML	Aug-15	89.5%	188	69	(13.8)%
Fairchem Organics	Feb-16	52.8%	30	111	34.1%
National Stock Exchange	Jul-16	1.0%	27	160	35.2%
Saurashtra Freight	Feb-17	51.0%	30	51	10.1%
Maxop	Nov-21	67.0%	51	52	0.8%
Jaynix	Feb-22	70.0%	32	33	1.0%
Other			34	38	24.8%
			1,654	3,040	13.2%

(1) Includes dividends received ($11 million) and spinoff of Quess ($330 million)

(2) Cost shown for Quess represents its market value on December 5, 2019, the date it was spun off from Thomas Cook India

(3) IIFL companies include IIFL Finance, IIFL Securities, 360 ONE WAM (formerly IIFL Wealth) and 5paisa

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3.) A short history of Fairfax's insurance investments in India

Fairfax began its insurance journey in India in 2000. That was the year the government in India opened the property and casualty insurance industry to foreign investment. Fairfax partnered with ICICI Bank, a large private bank in India, and created a joint venture called ICICI-Lombard. Fairfax invested $10 million for an interest of 26% in the new venture, the maximum allowed by Indian law at the time.

ICICI-Lombard experienced rapid growth in the years that followed and by 2006, they had become the largest private general insurance company in India with a 12.5% market share. Over the years Fairfax made numerous capital infusions to support the growth of ICICI-Lombard and maintain their ownership at 26%.

In 2015, the Indian government allowed foreign ownership in insurance companies to increase to 49%. That year Fairfax purchased an additional stake of 9% in ICICI-Lombard from ICICI Bank for $234 million; this increased Fairfax's ownership in ICICI-Lombard to 35%.

In 2017, ICICI Bank decided it was time to take ICICI-Lombard public. ICICI Bank wanted to maintain ownership of at least 55% (to maintain control). Indian law required the public to own at least 25% of an IPO. This meant Fairfax would need to reduce its position to a 'mere' 20%.

Solution? Fairfax decided it was time to start their own P/C insurer in India. So, they partnered with Kamesh Goyal and brought start-up Digit into the Fairfax family. What a gutsy call this was at the time.

Indian law does not permit ownership of 10% or greater in more than one insurance company so an agreement was struck with ICICI Bank for Fairfax to reduce their interest in ICICI-Lombard to below 10%. In 2017, Fairfax reduced their equity interest in ICICI-Lombard from 35% to 9.9% and booked an after-tax gain of $930 million. Fairfax sold their remaining position in ICICI-Lombard in 2019 for $729 million and booked another $311 million gain. My guess is Fairfax earned more than $1.15 billion after-tax from its 20-year investment in ICICI-Lombard. Impressive value creation for shareholders.

Digit is now the property and casualty insurance engine for Fairfax in India. Growth has been rapid. In 2019, three private equity firms purchased 10% of Digit for $91 million; this valued the company at $858 million. In 2021, Digit raised another $200 million; this capital-raise valued the company at $3.5 billion. In 2021, Fairfax recorded a net unrealized gain of $1.4 billion on its investment in Digit compulsory convertible preferred shares (CCPS). Additionally, "The company anticipates recording additional gains of approximately $400 upon consolidating its investment in Digit, which is subject to regulatory approvals permitting the company to increase its 49.0% equity interest in Digit to a control position." Fairfax is still waiting for final approval from Indian regulators (yes, this is understated… buy I am trying to keep this summary short).

From Prem's Letter in the 2022AR: "Digit, led by Kamesh Goyal, had another strong year: after only five years since its inception, premiums are over $900 million, up 50% over the last 12 months in local currency, and with the benefit of investment income it had another profitable year. Digit entered the Fortune India magazine's ranking of India's 500 largest companies by total revenue during the year at 398th on the list – we expect that will move up going forward! Digit is exploring an IPO in 2023 which would fund future growth."

On December 31, 2022, Digit had a cost of $154 million and a fair value of $2.28 billion = a compound annualized return of 79.5%. Fairfax looks exceptionally well positioned to grow in insurance in India with Digit.

4.) A short history of Fairfax's non-insurance investments in India

Fairfax's first large non-insurance investment in India was Thomas Cook India in 2012. Modi's election in 2014 led to Fairfax's next big move - the creation of Fairfax India in 2015. As a result, we are going to split this short history into two buckets: Thomas Cook India and Fairfax India.

Thomas Cook India

In 2012 Fairfax purchased 87.1% of Thomas Cook India (TCI) for $172.7 million. This was Fairfax's largest single purchase in India and the start of much more to come. At that time, Thomas Cook was designated the vehicle for Fairfax's future non-insurance investments in India.

- In early 2013, TCI purchased 74% of IKYA - renamed Quess - (Founder CEO - Ajit Isaac) for $47 million.
- In 2014, TCI purchased Sterling Resorts for $140 million.
- In 2015, TCI purchased Kuoni India for $32.5 million and Kuoni Hong Kong for $47.9mn.

In 2017, Thomas Cook India sold 5.4% of Quess for $97 million. Thomas Cook India completed its spin-off of Quess (which became a stand-alone company) in December of 2019. Fairfax's direct ownership in Quess was 32% (in Dec 2019: cost = $33 million; market value = $332 million; carrying value = $704 million).

Prime Minister Narendra Modi's election in 2014 caused an important change in Fairfax's strategy with its investments in India. Given Modi's election, and expected business friendly policies, Fairfax decided to accelerate the pace of its investing in India. However, Thomas Cook India's resources were a constraint on that growth. What to do? Fairfax made a significant pivot and decided to launch Fairfax India.

Comments from Prem about Prime Minister Modi from the 2014AR.

"Mr. Modi's election led us to rethink the investment opportunities in India and our ability to fund them. While we have $26 billion in investments at Fairfax, regulatory constraints limit our ability to invest significant amounts in India. Given our excellent long term track record investing in India, our very significant on the ground resources with Harsha Raghavan at Fairbridge, Madhavan Menon at Thomas Cook India, Ajit Isaac at Quess (the new name for IKYA), Ramesh Ramanathan at Sterling Resorts and also S. Gopalakrishnan, the long serving head of investments at ICICI Lombard, we felt it was appropriate to create a new public company, Fairfax India, to invest in India." *Prem Watsa – Fairfax 2014AR*

Fairfax India

In 2015, the Fairfax India IPO raised $1.1 billion, $300 million from Fairfax (28% equity ownership and 95% of voting control at inception). In 2017, Fairfax India raised an additional $500 million; Fairfax participated and owned 30.1% of equity interest and 93.6% of the voting rights. Today, Fairfax owns 41.9% of Fairfax India.

Company Profile: "Fairfax India Holdings Corporation is an investment holding company publicly traded on the Toronto Stock Exchange whose investment objective is to achieve long-term capital appreciation, while preserving capital, by investing in public and private equity securities and debt instruments in India and Indian businesses or other businesses with customers, suppliers or business primarily conducted in, or dependent on, India."

Overview of Fairfax India - powerpoint presentation from AGM on April 20, 2023

https://s1.q4cdn.com/293822657/files/doc_presentations/2023/Fairfax-India-AGM-2023.pdf

Comments from Prem about Fairfax India from the 2022AR.

"Since Fairfax India began, it has completed investments in 12 companies and exited one (14 currently as one has been split into four listed entities), all sourced and reviewed by Fairbridge, Fairfax's wholly owned sub-advisor in India. Fairbridge does outstanding work under the excellent leadership of CEO Sumit Maheshwari, supported by its Director Anish Thurthi, Vice President Sheetal Sancheti and analysts Jinesh Rambhia, Ramin Irani and Chinar Mathur. Fairfax India's Mauritius subsidiary, FIH Mauritius Investments, ably led by its CEO Amy Tan, supported by its Vice President Vishal Mungur and its independent Board of Directors, is an integral part of the investment process. Also, since Fairfax India began, Deepak Parekh, both as a trusted advisor and a member of the Board of Directors, has provided us with invaluable advice on almost all of its transactions."

"All of Fairfax India's investments are in outstanding companies with a history of strong financial performance, led by founders and management who are not only excellent but also adhere to the highest ethical standards." *Prem Watsa – Fairfax 2022AR*

Bangalore International Airport Limited (BIAL)

Fairfax's India's largest and most important investment is Bangalore International Airport Limited (BIAL). At December 31 2022, Fairfax had invested a total $653 million in BIAL which at that date had a fair value of $1.2 billion. Fairfax India just announced an additional purchase of 3% of BIAL from Siemens for $75 million and agreed to acquire an additional 7% later in 2023 (taking their ownership to 64%) for $175 million. This would take Fairfax India's ownership in BIAL to 64%.

Comments from Prem about BIAL from the 2022AR.

"As I have said many times in past annual reports, the crown jewel (and largest) of Fairfax India's investments is the Bangalore International Airport, run by Hari Marar. In 2022, Hari and his team did the impossible – they built the most beautiful airport in the world (Terminal 2 or T2) in a record four years, of which two were interrupted by COVID! In my mind, there is no airport in the world like T2 and it will be an inspiration for travellers arriving in Bangalore, the state of Karnataka and India. It will show the world anything is possible in India." *Prem Watsa – Fairfax 2022AR*

Fairfax India's performance:

Here is a snapshot of Fairfax India's performance since it began:

$ millions except per share amounts:	2022	2021	2020	2019	2018	2017	2016	2015	CAGR[1]
Book value per share	$ 19.11	$ 19.65	$ 16.37	$ 16.89	$ 13.86	$ 14.46	$ 10.25	$ 9.50	8.5%
Income	237.5	693.5	(13.0)	712.7	166.5	609.7	128.6	65.3	
Net earnings (loss)	191.4	494.5	(41.5)	516.3	96.4	452.5	107.8	40.9	
Return on equity	7.1%	18.9%	(1.7)%	22.0%	4.5%	28.2%	10.3%	4.0%	11.7%[2]
$ billions:									
Total assets	3.4	3.6	3.1	3.2	2.7	2.7	1.3	1.0	16.2%
Investments	3.2	3.5	3.0	3.2	2.7	2.6	1.1	1.0	16.2%
Common shareholders' equity	2.6	2.8	2.4	2.6	2.1	2.1	1.1	1.0	12.9%
Shares outstanding (millions)	138.3	141.2	149.5	152.6	152.9	147.4	104.9	106.7	

(1) Since Fairfax India's inception on January 30, 2015, when it raised $1.03 billion at $10 per share. From an initial value of $9.62 (after IPO expenses), book value per share has compounded at 9.0% annually.

(2) Simple average of the return on equity for each of the eight years.

Fairfax India's Anchorage IPO:

Comments from Fairfax India about Anchorage from the 2022AR.

"In June 2019, Fairfax India created a 100% owned subsidiary in India named Anchorage Infrastructure Investments Holdings (Anchorage). It is intended that this company will be Fairfax India's flagship investment vehicle for airports and other infrastructure investments in India and that all the shares it owns in Bangalore International Airport (BIAL) will eventually be transferred to Anchorage.

"In September 2021, Fairfax India, as previously agreed, transferred 43.6% out of the 54% that it owns in BIAL to Anchorage and OMERS (the pension plan for municipal employees in the Province of Ontario, Canada) invested $129.2 million to acquire from Fairfax India an 11.5% interest on a fully diluted basis in Anchorage. This resulted in OMERS indirectly owning approximately 5% of BIAL. At that time, this transaction valued 100% of BIAL at $2.6 billion.

"Fairfax India intends to complete an IPO of Anchorage, although we did not move forward on this in 2022 as we are awaiting regulatory approvals.

"Once Anchorage is listed, the proportion of the publicly listed investments in Fairfax India will increase from the current 39.2% to 79.8% of the overall portfolio." *Fairfax India 2022AR*

Summary

Over the past 11 years, Fairfax has dramatically increased the number and size of its equity investments in India. It holds some of these investments directly. More recent investments are held primarily though Fairfax India, of which BIAL is the largest single holding. Anchorage is poised to be a growth vehicle for Fairfax India in the coming years.

Fairfax and Fairfax India's history: link to press releases of most transactions in India

https://fairbridgecapital.com/history.html

5.) People

The CEO of Fairfax, Prem Watsa, was born and raised in India. Since at least 1995, Fairfax has had important resources allocated to India. In 2011, this commitment increased with the creation of Fairbridge Capital which provides Fairfax with significant boots-on-the-ground resources in India.

Chandran Ratnaswami

Chandran is one of the true heroes of this story. He was hired by Fairfax in 1995. Currently a Senior Managing Director at Hamblin Watsa (responsible for East Asia), he is also CEO of Fairfax India. His fingers are all over Fairfax's investments in India for the past 28 years.

Comments from Prem about Chandran from Fairfax's 2017AR.

"In 1995, Chandran Ratnaswami joined us to build our international insurance and common stock investments, particularly in India. I said then, "this may be an acorn for a future oak tree." Well what an oak tree Chandran has developed! We, with ICICI Bank, created the largest non-government-owned property and casualty insurance company in India from scratch, managed an Indian investment portfolio with outstanding results for over 20 years, created Fairbridge with Harsha Raghavan as Managing Director, acquired a 77% interest in Thomas Cook India which then acquired Quess and Sterling Resorts, and finally created Fairfax India which now has a market value of $2.5 billion. Chandran was intimately involved with all of these activities and serves on most of the Boards of our Indian companies." *Prem Watsa – Fairfax 2017AR*

Fairbridge Capital:

Established in 2011, Fairbridge is a subsidiary of Hamblin Watsa that researches and advises on Fairfax's and Fairfax India's investments in India.

From the Fairbridge Capital web site: https://fairbridgecapital.com

"Fairbridge takes a long-term value approach towards acquisitions and investments in the Indian region. We focus on long-term capital appreciation through a flexible and value-oriented approach, underpinned by our guiding principles, including integrity, transparency and responsiveness in all our dealings. Our permanent capital base enables us to execute unique set of transactions; by taking a very long-term view, combined with the ability to execute highly flexible and creative deal structures."

Fairfax also leverages the knowledge and expertise of the various founder/CEO's of the companies it controls in India, like Thomas Cook (Madhaven Menon), Quess (Ajit Isaac) and others.

Fairfax has been building out its 'people' capabilities in India for decades. Most importantly, it has a dedicated team, Fairbridge Capital, with deep local knowledge that can act as opportunities present themselves.

6.) Summary

Fairfax's investing strategy in India:

- Insurance: all insurance investments will be held at Fairfax.
- Legacy non-insurance investments, Thomas Cook and Quess, will remain at Fairfax.
- Most new non-insurance investments will be held at Fairfax India.

What have we learned about Fairfax and India?

- deep understanding of the country
- government deregulation is a significant driver of opportunity.
- partner with strong founder/owners
- decentralized ownership structure
- supportive / very good partner
- long term focus
- strategic
- adaptive
- opportunistic
- entrepreneurial
- diversified

From the very beginning, Fairfax has excelled with both its insurance and non-insurance investments in India. This success is due primarily to the people talent Fairfax has amassed at Hamblin Watsa and Fairbridge Capital. It is like Fairfax has been quietly building out its capabilities in India… preparing and waiting for the right moment… and it appears that right moment may have arrived. If India is the top performing global economy over the next decade, Fairfax certainly looks very well positioned to capitalize on that growth.

"Success occurs when opportunity meets preparation" *Zig Ziglar*

Greece – The Gods Are Smiling

July 28, 2023

Greece has been an interesting geography for Fairfax for the last decade. Fairfax has both insurance and equity investments in Greece. The total value of Fairfax's holdings in Greece is about $3.1 billion. This is made up of equity holdings of $2.655 billion and insurance holdings of about $463 million. Greece is an important jurisdiction for Fairfax.

Over the past couple of years Greece has finally begun emerging from its financial catastrophe. A pro-business government has been busy restructuring the Greek economy. Tourism and property markets are once again doing well. The Greek economy is expected to be one of the top performing economies in Europe in the coming years. The Greek stock market is performing well. The stock prices of both Eurobank and Mytilineos have been on a tear in 2023, with both hitting new multi-year highs recently. Fairfax looks well positioned.

What assets does Fairfax own in Greece today?

- Eurobank: 32.2% ownership of a well-managed bank that includes a very large and profitable property company (formerly Grivalia Properties); its balance sheet appears fixed and 2022 has been a breakout year for profitability. This is the second largest equity holding for Fairfax (based on market value).
- Grivalia Hospitality: 78.4% ownership - deploys capital in the very attractive high-end hospitality sector in Greece and Cyprus. Managed by Grivalia Management (also manages real estate holdings for Eurobank).
- Mytilineos: 6.43% ownership (including the exchangeable bond) - a global metallurgy and energy company.
- Praktiker: 100% ownership? A Home Depot type business. Much smaller than the other companies listed above.
- Eurolife: 80% ownership (20% owned by Eurobank). A well-managed insurance company. In 2021, had 31% share of the total life and general insurance market in Greece.

Links to company web sites:

Eurobank:	https://www.eurobank.gr/en/group
Mytilineos:	https://www.mytilineos.gr/who-we-are/mytilineos-company/
Grivalia Hospitality:	https://grivaliahospitality.com/about-us.html
Eurolife:	https://www.eurolife.gr/en

Media Interview with Prem (April 3, 2023): Greek Banks are Safer

The CEO of Fairfax Financial says Greek banks have up to twice the capital adequacy of the US – 'We are not going to sell a single share'

https://knews.kathimerini.com.cy/en/business/prem-watsa-greek-banks-are-safer

A list of Fairfax's holdings in Greece.

Eurobank is Fairfax's largest single holding in Greece representing 60% of the total.

Fairfax's Holdings in Greece			Fair Value	Carrying Value	
Date of Initial Investment	Ownership %	Equity Holdings	30-Jun (million)	31-Mar (million)	Shares Owned (million)
2014	32.2%	Eurobank	$1,922	$1,637	1,166
2011	78.4%	Grivalia Hospitality	$409	$409	
2013	4.7%	Mytilineos	$236	$236	6.688
2022	1.8%	Mytilineos Exchange Bond	$88	$88	2.5
2014		Praktiker (not sure of value)	private holding		
	Total Value of Equity Holdings in Greece		**$2,655**	**$2,371**	
	Value of Fairfax's Total Equity Holdings		**$16,300**	Greece + everything else	
	Share of Fairfax's Holdings in Greece		**16%**		
Date of Initial Investment	Ownership %	Insurance Holdings	Shareholders Equity 31-Dec-22 (million)		
2015	80%	Eurolife - Life Insurance	$393	From 2022 AR	
2015	80%	Eurolife - P&C Insurance	$70	From 2022 AR	
		Total Insurance Holdings	**$463**		

A Short History of Fairfax's Investments in Greece

June 2022

Fairfax's 10-year history in Greece has had a couple of triumphs (Grivalia, Eurolife), one catastrophe (initial investment in Eurobank), adversity, heroes, villains, a depression, a pestilence, loyalty, creativity (merger of Grivalia Properties with Eurobank) and years of hard work - it all reads like one of the books of the Iliad by Homer.

Below is a short summary of the odyssey of how Fairfax got to where it is today with its Greek investments. All good stories always start at the beginning. So…

Why did Fairfax invest in Greece?

Answer: Ireland. What?

Fairfax had outstanding success investing in a distressed Irish bank (Bank of Ireland) in late 2011 after the Great Financial Crisis (I think they made +$800 million on this investment - tripled their money in a little over 5 years). And business partner, Kennedy Wilson, had great success investing in real estate in Dublin. So as the cash register was ringing on their Irish investments, Fairfax saw similar opportunities in Greece.

What was the timeline of the Greek purchases?

- 2011: purchased 3.8% position in Grivalia (called Europroperties then)
    - Run by George Chryssikos, who is one of the heroes of this story.
    - The Greek journey begins.
- Aug 2012: Grivalia (Eurobank Properties REIT) - Fairfax increased ownership from 3.8 to 18% for $50 million
- 2013: Grivalia (Eurobank Properties REIT) - Fairfax increased ownership to 41% for $20 million (plus?)
- Dec 2014: Eurobank: Fairfax makes initial investment of €400 million with group of investors (including Brookfield, Wilbur Ross, Fidelity, Mackenzie, Capital Research and Management)
    - unemployment rate in Greece in 2014 is 28%!
- Nov 2015: Eurobank recapitalization (forced by ECB, one of the villains of our story)
    - Fairfax invests an additional €350 million; ownership increases from 12.5% to 17%. 1 for 100 reverse share split; sold new shares for €1.00.
- Aug 2016: Eurolife: Fairfax purchases 80% ownership; 40% to Fairfax for $181 million and 40% to OMERS for $181 million.
    - purchased from Eurobank. Fairfax was aided in its bid by its ownership in Eurobank (viewed as being good partner); important to Eurobank because the bank was retaining 20% ownership and much of Eurolife's business was transacted through Eurobank distribution channels.
    - referendum in Greece in 2015; Tsipras/Syriza elected; Syria refugees.
- 2017: Grivalia - Fairfax Increased ownership to 52.7% for $100 million
- 2018: Eurolife - Fairfax increased ownership to 50%; bought 10% from OMERS (whose ownership decreased to 30%)
- Nov 2018 (closed May 2019): Eurobank - Fairfax increases stake to 32.4% via merger with Grivalia Properties.
    - all stock transaction valued at US$866 million
    - Fairfax owned 18% Eurobank and 54% of Grivalia; on close Fairfax owned 32.4% of new Eurobank.
    - Grivalia paid €40.5 million special dividend.
    - Eurobank launched property management business run by Grivalia CEO
- July 2021 Eurolife: increased ownership to 80% (purchased OMERS 30% stake for $142.6); Eurobank owns remaining 20%
- July 2022 Grivalia Hospitality: increased ownership from 33.5% to 78.4% for $195 million; Eurobank owns remaining 21.6%?
- Dec 2022 Mytilineos: increased ownership to 4.68% for $53 million

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Fairfax's Other Greek investments:

2013 Mytilineos - 5% for €30 million ($41 million)
2014 Praktiker Hellas AE - bought 100% for €21 million.

Why is Eurolife considered a gem?

Comments from Prem about Eurolife from Fairfax's 2019AR.

2019: "Through the crisis in Greece, we acquired a gem in Eurolife, a Greek property and casualty and life insurance company that operates predominantly in Greece but also in Romania. Alex Sarrigeorgiou has run Eurolife since 2004, following Eurobank's decision to grow its insurance business, and we acquired it with OMERS as our partner in 2016. Since our initial 40% purchase of Eurolife in 2016 for €163 million, Eurolife has earned €347 million and paid dividends of €298 million, and shareholders' equity has increased from €400 million to €720 million at the end of 2019 after the payment of dividends. This phenomenal performance was predominantly because Eurolife had a significant holding of Greek government bonds whose rates went from 8% to 1% during that time period while its non-life business had an average combined ratio of 72%. We currently own 50% and equity account for Eurolife but plan to buy the rest of OMERS' shares in 2020."
Prem Watsa – Fairfax 2019AR

2020: "Finally, in Greece, Eurolife has been an extraordinary investment for Fairfax. Writing both Life and Property/Casualty lines, the company in 2020 generated over $500 million of gross premiums written and produced net income of $130 million. Led by Alex Sarrigeorgiou, Eurolife has a track record second to none in the Greek market." *Prem Watsa – Fairfax 2020AR*

2021: "On July 14, 2021 the company increased its interest in Eurolife to 80.0% from 50.0% by exercising a call option valued at $127.3 to acquire the joint venture interest of OMERS for cash consideration of $142.7 (€120.7). The assets, liabilities and results of operations of Eurolife's life insurance business were consolidated in the Life insurance and Run-off reporting segment and those of Eurolife's property and casualty insurance business were consolidated in the Insurance and Reinsurance – Other reporting segment, pursuant to which the company remeasured its 50.0% joint venture interest in Eurolife to its fair value of $450.0 and recorded a net gain of $130.5 in gain on sale and consolidation of insurance subsidiaries in the consolidated statement of earnings, inclusive of foreign currency translation gains that were reclassified from accumulated other comprehensive income (loss) to the consolidated statement of earnings. The remaining 20.0% equity interest in Eurolife continues to be owned by the company's associate Eurobank. Eurolife is a Greek insurer which distributes its life and property and casualty insurance products and services through Eurobank's network and other distribution channels."

(5) "Includes a redemption liability of $124.9 on non-controlling interests as the company's associate Eurobank may put its 20.0% equity interest in Eurolife to the company commencing in 2024 at the then fair value of that interest."

Here is more information on Grivalia Properties which is now part of Eurobank.

Comments from Prem about Grivalia Properties from Fairfax's 2017AR.

"In 2017, we raised our equity interest in Grivalia to 52.7% by buying 10.3% for $100 million when Eurobank decided to divest its interest in Grivalia. It has been six years since we first met George Chryssikos, the outstanding CEO of Grivalia. Through Wade Burton, we took our first position in Grivalia in 2011 at Euro5.77 per share. George has navigated the Greek economic crisis superbly by buying only the highest quality commercial buildings and shopping centres at huge discounts to replacement cost and unlevered returns of 8% to 10%, not using excessive leverage and always focusing on the long term. We are very excited to be partners with George and his team as they build a fantastic real estate company. Like Bill McMorrow at Kennedy Wilson, George has a unique nose for value in real estate! And like all our Fairfax companies, he is building a fine company, focused on its customers, looking after its employees, making a return for shareholders and gratefully reinvesting in the communities where it operates. Business is a good thing!!" *Fairfax 2017AR*

Comments from Prem about the merger of Grivalia Properties into Eurobank in 2019.

"Early in 2019, Fokion Karavias (CEO of Eurobank) and George Chryssikos (CEO of Grivalia) came up with the idea of merging Grivalia into Eurobank, to strengthen the capital position of Eurobank, and accelerating its non-performing loan stock reduction through spinning out €7.5 billion of non-performing loans from the bank to its shareholders. We thought it was a brilliant idea but the process took time as it was subject to shareholder approval at Eurobank and Grivalia and regulatory approval from the ECB. As part of the same plan, Eurobank sold its non-performing loans management unit, FPS, to doValue S.p.A. for €360 million. We expect all these transactions to close by March 31, 2020 and Eurobank to be well capitalized and on its way to earning 10% on its shareholders' equity in 2020. Last year, Greece had an election in which the business friendly party of Kyriakos Mitsotakis won a majority in the parliament. As the new Prime Minister, Kyriakos has the opportunity to transform Greece by encouraging foreign investment into the country and by being business friendly. Ten-year Greek government bonds, which peaked at a yield of 37% in 2012, came down to 10% in 2016 and are now trading below 1%. Recently, Greece did a 15-year bond issue at 1.9% and a 30-year issue at 2.5%. The animal spirits are coming back to Greece and we think the Greek economy and Greek companies will thrive. Eurobank should benefit!! Our cost of 1.2 billion shares of Eurobank after the Grivalia transaction is now 94¢ versus a book value of approximately 135¢ per share post the transaction. At year end, Eurobank was selling at 68% of book value and 6.5x normalized earnings. We still believe it will be a good investment for us." *Prem Watsa – Fairfax 2019AR*

"On May 17, 2019 Grivalia Properties merged into Eurobank, as a result of which shareholders of Grivalia Properties, including the company, received 15.8 newly issued Eurobank shares in exchange for each share of Grivalia Properties. Accordingly, the company deconsolidated Grivalia Properties from the Non-insurance companies reporting segment, recognized a non-cash gain of $171.3 and reduced non-controlling interests by $466.2. In connection with the merger, Grivalia Properties had paid a pre-merger capital dividend of €0.42 per share on February 5, 2019. The company owned approximately 53% of Grivalia Properties and 18% of Eurobank prior to the merger, and owned 32.4% of Eurobank upon completion of the merger." *Fairfax 2019AR*

Chapter 18: Investments – History Lessons – Four Distinct Eras

Fairfax continues to be a very misunderstood company. What is the problem? Many investors are still trapped in the shackles of the past. And they are unable to break free. Truth be told, many probably don't want to break free. It's that 'ignorance is bliss' thing at play - when it comes to a company like Fairfax, not knowing something (current reality) is more comfortable than knowing it.

This likely at least partly explains why narratives around companies - even when they are completely wrong - are so slow/hard to change. But the good news is facts and fundamentals are ultimately what matters - so stock prices and narratives (probably in that order) do eventually get updated/corrected.

One of the keys in this renewal process is education. Getting more educated is usually a pretty good thing – especially for an investor. In this Chapter we will explore Fairfax's past – specifically its investment management business. What we learn should help us to better understand the company today. And where it might be going in the future.

Investments – 4 Distinct Eras

Looking at Fairfax's investment management business over the past 20 years we see distinct themes emerging – which had a big impact on reported results. We shine a light on 4 distinct eras below.

- A Review of 2018-2022: New Fairfax
- A Review of 2014 to 2017: Old Fairfax
- Equity Hedges and Shorts 2010-2020: The Lost Decade
- Credit Default Swaps 2005-2009: The Big Short – Fairfax Edition

A Review of 2018-2022: New Fairfax

April 15, 2023

Why 'new Fairfax?' My view is something changed at Fairfax around 2018 in how they were managing the equity side of their investment portfolio. Around that time, they appeared to put more of a premium on investing in companies with strong management - Hamblin Watsa was not a turn-around shop. The companies also needed to be in good financial shape and able to fund their growth ambitions on their own - Fairfax was no longer going to be a piggy bank for poorly run, struggling companies.

This post will review ten of Fairfax's largest equity purchases made from 2018 to today. As a group, these investments have already delivered considerable value to Fairfax shareholders. And they look well positioned for the future.

1.) Fairfax Total Return Swap (TRS) - equity derivative (2020): Late in 2020 and early in 2021, Fairfax purchased TRS giving it exposure to 1.96 million Fairfax shares at an average cost of $372.96/share. Fairfax shares closed Friday at $658/share. This puts the gain at $285/share (+71%) = $559 million (before cost to carry TRS).

That is an exceptional return over 28 months. Fairfax shares, trading at 1 x trailing BV, still look cheap. This investment could deliver another $250 million return to Fairfax shareholders in each of the next 2 years. If this happens, this will put the total return at over $1 billion. This investment is quickly becoming one of Fairfax's best.

2.) Fairfax 'dutch auction' stock buyback (2021): in the fall of 2021, Fairfax made another investment in Fairfax, buying 2 million shares at $500/share, for a total of $1 billion. Fairfax's book value at Dec 31, 2022 was $658/share. My guess is book value on Dec 31, 2023 will be about $770/share. Stock buybacks should only be done when your shares are trading at a discount to intrinsic value. This investment looks very good for shareholders.

These first two investments show Fairfax at its very best. Value investors. Opportunistic. Creative. Aggressive (with position size). Timed perfectly.

3.) Seaspan (2018 & 2019): In February 2018, Fairfax made their first investment in Seaspan (now Atlas). Why? David Sokol. Atlas is Fairfax's largest equity holding today. Fairfax owns 131 million shares of Atlas (43%) with a carrying value of $1.5 billion ($12.39/share) and a market value of $1.865 billion ($15.34/share). The first 76 million shares were purchased by Fairfax at $6.50/share.

In the 2022AR, Prem said as the new-build strategy is executed Atlas may hit EBITDA of $1.75 billion in 2025; in 2022 adjusted EBITDA was $1.135 billion. In 2022 Atlas delivered share of profit of associates of $258 million to Fairfax. This number looks likely to increase in the coming years. This investment looks poised to be another $1 billion winner for Fairfax.

4.) Stelco (2018): in late 2018, Fairfax invested $193 million for a 13.7% stake in Stelco. A steel producer? At the time I did not like the purchase. It screamed 'old Fairfax' to me. Boy, was I wrong. Steel went to record prices. The CEO, Alan Kestenbaum, is exceptional. Stelco has paid regular and

large special dividends. Fairfax's position is now worth $470 million, and they own 23.6% of Stelco. This investment has performed exceptionally well for Fairfax shareholders. Steel looks to be in a secular bull market – with all the infrastructure/energy transition/home-shoring plans.

5.) Foran Mining (2021): in Aug 2021, Fairfax invested $78 million in Foran Mining. Pierre Lassonde is another large shareholder (founder of Franco-Nevada). Foran is developing a large copper mine in Saskatchewan. As we execute the EV transition, looking out only a couple of years, it is expected demand for copper could exceed its supply. Right about the time when this mine should be starting up production. Market value of Fairfax's position is currently $220 million. If the mine works out, and copper prices move much higher, this investment could go much higher. Yes, lots of risk.

6.) Recipe (2022): in August 2022, Fairfax invested $342 million (with $100 million coming from Recipe itself) to take Recipe private. Fairfax now owns 84%. Fairfax has been a major consolidator of the Canadian restaurant industry starting in 2012. They understand Recipe very well. They got the asset at an attractive price (at a Covid discount). Recipe has a carrying value of $594 million for Fairfax. Recipe generated free cash flow of about $110 million each year from 2017-2019 (pre-Covid). They should be able to get back there, which would deliver about $95 million/year to Fairfax. This could become a meaningful and predictable cash generator for Fairfax moving forward.

7.) Large cap stocks (BAC, OXY, CVX, MU): In Q2 and Q3 of 2022, Fairfax invested $380 million in US large cap stocks. Banking. Energy. Technology. Solid companies. Good core, long-term holdings that should deliver a solid return for Fairfax shareholders in the years to come.

8.) Grivalia Hospitality (2022): in July 2022, Fairfax increased their stake in Grivalia Hospitality – purchased from Eurobank for $195 million. Here is what Prem had to say in the 2022AR: "Recognizing the outstanding results achieved at Grivalia Hospitality by George Chryssikos, Vice Chair of Eurobank, in 2022 we increased our ownership to 78%. Grivalia Hospitality is a leading investor in Greece's booming ultra- luxury hotel space, with three operating assets and seven under development. You will remember that George ran Grivalia Properties, a public company of which we owned 51%. Eurobank and Grivalia Properties merged in 2019 when Eurobank needed capital. The gains from Grivalia Properties and the Eurobank shares we acquired on the merger have resulted in a total gain to Fairfax of approximately $1 billion. We gratefully add George's name to Richie Boucher's from the Bank of Ireland, who was our first billion dollar man." Fairfax has done exceptionally well investing alongside of George Chryssikos. Let's hope George's Midas touch continues to the benefit of Fairfax shareholders.

9.) Dexterra/Carillion/Horizon North (2018): in March of 2018, Fairfax purchased Carillion Canada out of bankruptcy protection (it was the UK operations that were in trouble). In May of 2020, Dexterra engineered a reverse takeover of Horizon North. Fairfax owns 49% of Dexterra. The company has a near-term target to get to C$100 million in EBITDA. They are funding their growth internally. 2022 had some near-term challenges (inflation and labour) in Modular Solutions and IFM units. Carrying value is $103 million. Market value today is $121 million. There is a good chance company could get to its C$100 million EBITDA target in the next couple of years.

10.) Toys "R" US (2018): In 2018, Fairfax purchased Toys "R" Us Canada out of bankruptcy for $235 million. At the time of purchase this transaction was a bit of a head scratcher. However, in 2021, Fairfax sold the retail operations and kept the real estate, and the transaction made much more sense. Not sure what the current value is.

A Review of 2014 to 2017: Old Fairfax – too many 'chronically-leaking boats'

April 14, 2023

> "My conclusion from my own experiences and from much observation of other businesses is that a good managerial record (measured by economic returns) is far more a function of what business boat you get into than it is of how effectively you row (though intelligence and effort help considerably, of course, in any business, good or bad). Some years ago I wrote: "When a management with a reputation for brilliance tackles a business with a reputation for poor fundamental economics, it is the reputation of the business that remains intact." Nothing has since changed my point of view on that matter. Should you find yourself in a chronically-leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks." *Warren Buffett – Berkshire Hathaway 1985AR*

Fairfax's equity portfolio looks very well positioned today. Most of the equity holdings purchased since 2018 have been performing well. And, after years of hard work, the poor performing equity holdings (many purchased from 2014-2017) have largely been fixed and are now performing well. In fact, the equity portfolio looks better positioned today than at any other time in Fairfax's recent history. We are increasingly seeing the benefits in improved reported results. A good recent example is 'share of profit of associates,' which spiked to more than $1 billion in 2022; the previous high was $402 million in 2021.

<u>What happened?</u>

Three things:

1.) Fairfax learned a few important lessons from the poor purchases they made from 2014-2017. It looks me like Fairfax has tweaked the methodologies used when allocating capital.

- They are putting a premium on management. Hamblin Watsa has decided it is not a turn-around shop - looking to actively run poorly lead/challenged businesses.
- They are also looking to invest in better balance sheets. Fairfax is no longer a piggy bank for poorly run companies in search of cash. Others on this board have pointed this out.

2.) The Fed and the ending of easy money (zero interest rates/QE) is likely a driver of the stronger performance the past two years of Fairfax's equity holdings. Value investing is back.

3.) The timing of the cycle is finally working in Fairfax's favour and is driving stronger performance of the equity holdings. Value, resource, and commodity stocks appear to be in a secular bull market.

At the end of the day, all the above is likely partly responsible for the improvement we have seen in Fairfax's equity holdings in recent years.

It can be instructive to look into the past so we can learn. This helps us understand what has been baked into past results. In turn, this can help us understand what might happen in the future.

What happened with the purchases from 2014-2017?

A total of 10 investments are reviewed below. Fairfax invested a total of about $3.5 billion in these investments over the years. Over the past 8 years my math says Fairfax booked losses of about $1.5 billion on these holdings. That is almost $200 million, on average, each year. For example, in 2022, Fairfax wrote down its investment in Farmers Edge by $133 million. Stuff like that.

The bigger cost to shareholders has been the opportunity cost. Prem tells us that Fairfax expects its equity investments to deliver returns of 15% per year. Applying a more modest 10% target, the $3.5 billion in investments (made 2014-2017) should have doubled in value by now to $7 billion. The opportunity cost of the poor investments made from 2014-2017 is likely an additional $2 billion.

This is actually a good news post. The good news is:

1. The equity purchases made from 2018 to April 2023, as a group, look very good and are performing well.
2. As I will review below, the problem investments from 2014-2017 look like they are not only fixed - they are also poised to deliver solid returns for Fairfax shareholders moving forward. An 8 year-long headwind has now become a tailwind.

As a result, I expect Fairfax's $16 billion equity portfolio to generate a higher total return (percent and absolute) in the coming years than it has delivered over the last decade. Given its current construction, it could well compound at 12% over the next couple of years = $1.9 billion/year:

- dividends = $120 million
- share of profit of associates = $900 million
- consolidated earnings = $240 million
- mark-to-market investment gains = $650 million (not including fixed income)

Below is a short review of 10 large investments made over the 4 years from 2014-2017.

1.) EXCO Resources (2015): Fairfax's initial investment was $300 million in 2015. We have since learned that shale was a bubble and it eviscerated something like $5 billion in capital up until 2020. Fairfax reported cumulative realized losses of $296 million on EXCO in 2019 (as per the AR).

- Learning: the old economic model for shale was a sham.
- The good news: energy looks like it is in a structural bull market; the new economic model for shale looks good - focussed on shareholder return.

2.) APR (2016): Fairfax invested a total of $462 million in APR in 2016 and 2017. In 2018 they sold it to Atlas for $200 million (in Atlas stock). The first thing Atlas did was replace the CEO.

- Learning: Terrible business. Poorly managed.
- The good news: APR is now Atlas' problem.

3.) Fairfax Africa (2017): launched with much fanfare in 2017, Fairfax invested a total $476 million. Two short years later Fairfax exited its management of the business and moved the assets to a fund managed by Helios. The value of the Helios fund today is about $100 million. I am not sure what the total financial loss was for Fairfax on this investment, but it was significant. The damage to Fairfax's reputation was also significant.

- Learning: Hubris on steroids? Terrible idea. Worse execution.
- The good news: Fairfax is partnered with Helios and looks well positioned moving forward in Africa. This is now a small investment for Fairfax.

4.) Farmers Edge (2017): Fairfax invested $159 million in Farmers Edge in 2017. Farmers Edge completed its IPO in 2021 and in the 2021 AR Fairfax said their total investment in Farmers Edge to that point was $376 million. The CEO 'stepped down' in April of 2022. In the 2022 AR, Fairfax said Farmer's Edge had a carrying value of $71 million, after taking a $133 million write down in 2022. The market value of Fairfax stake was $5 million at Dec 31, 2022. My guess is this investment, because it performed so terribly post-IPO, has caused Fairfax some damage to its reputation (given Fairfax was the majority shareholder).

- Learning: Yup, SPAC's were a bubble.
- The good news: carrying value is $71 million. This is now a small investment for Fairfax.

5.) Eurobank (2014): Fairfax invested $444 million in Eurobank in 2014. This initial investment went to close to zero later that year when the ECB mandated a 1-for-100 reverse share split. What was the problem? Greece was in the midst of a depression. What did Fairfax do? It doubled down and invested another $389 million in Eurobank in 2015. In 2019, Eurobank did a capital raise/merger with Grivalia. Greece elected a pro-business government in 2018. Eurobank fixed its balance sheet.

- Learning: Because the strategy worked in Ireland doesn't mean it would work in Greece.
- The good news: Greece's economy is well positioned. Eurobank, always well managed, is executing well and earnings are spiking. Share of profit of associates was $263 million in 2022, up from $162 million in 2021. Prem estimated Eurobank could earn €0.20/share in 2023; if so, Fairfax's share of profits for Eurobank could be +$300 million in 2023. This investment is turning into a home run for Fairfax - a Greek tragedy turns to a triumph!

6.) AGT (2017): Fairfax invested $148 million in AGT in 2017. In 2019, as AGT was experiencing financial difficulties, Fairfax took AGT private, spending another $227 million (I think).

- Learning: It takes much more than a dynamic Canadian founder to succeed.
- The good news: from 2022 Fairfax AR: "AGT, run by founder and CEO Murad Al-Katib, had a record year in 2022, with EBITDA of over Cdn$150 million. This is a dramatic improvement from the time of the take-private transaction almost four years ago when the business was generating slightly over Cdn$60 million in EBITDA… Fairfax has an approximate 60% stake in AGT."

7.) Commercial Industrial Bank (CIB) Egypt (2014): Fairfax invested $330 million in CIB in 2014. Today the position is worth about $240 million. Great company. Solid management. What is the problem? Egypt's economy has been a slow-moving train wreck for decades - with constant currency devaluations.

- Learning: Constant currency devaluations (like 50% in the last year) hurt equity values.
- The good news: the bank is well managed.

8.) Mosaic Capital (2017): Fairfax invested $116 million in Mosaic in 2017. In 2021, Mosaic was taken private (not by Fairfax) with Fairfax owning 20% of the new investment. This investment went sideways for many years (that opportunity cost thing).

- Learning: not every investment you make is going to work out.
- The good news: Fairfax found a partner where Mosaic will hopefully be a better fit.

9.) Recipe/CARA (2014 & 2016): Fairfax made a couple of restaurant investments from 2014-2017: $77 million in the Keg in 2014 (merged with CARA in 2018) and $100 million in the CARA capital raise in $2016. Recipe/CARA was a poor investment for minority shareholders over its lifetime.

- Learning: the restaurant business in Canada is a tough business. Consolidating it proved to be even tougher.
- The good news: In the take private deal in 2022, Fairfax purchased Recipe at a Covid-low price. Recipe has a solid collection of assets that should be able to produce a solid amount of free cash flow for Fairfax moving forward.

10.) Astarta (2017): Fairfax invested $104 million in Astarta in 2017. Today that investment is worth around $45 million. I know very little about this investment. I wonder if it is not a similar situation to CIB, with opportunity cost being the big issue.

Honorable mention: Torstar was initiated as a position before 2014 so I did not include it. However, Fairfax added to its position in 2014, 2016 and 2017 (yes, small amounts). In 2020 it sold the business and booked a $52 million loss.

I see lots of self-inflicted wounds in the investments listed above – reading the list reminds me of the Monty Python skit “tis but a scratch".

Some of Fairfax's Larger Investments Initiated 2014-2018

		cost	
2014	CIB (Egypt)	$330	
	Eurobank	$444	initial investment went to zero
	Keg (CARA)	$77	later folded into CARA
2015	Fairfax India	$300	initial capital raise
	EXCO Resources	$300	
	Eurobank #2	$389	capital infusion
2016	APR	$340	
	CARA	$100	capital raise
2017	Fairfax India #2	$145	second capital raise
	Mosaic	$116	
	Fairfax Africa	$325	initial capital raise
	Farmers Edge	$159	
	Astarta	$104	
	APR #2 & #3	$122	
	AGT Food	$148	
2018	Fair Africa #2	$151	second capital raise
2019	AGT #2	$227	take private
	EXCO		bankruptcy restruc. $296 mill losses
	Eurobank/Grivalia		capital raise / merger
	APR		sale to Atlas for $200 million
	Helios Fairfax		sale/merger to Helios
2021	Mosaic Cap		take private
2022	Farmers Edge		write-down of position - $133
	Total	**$3,777**	

Equity Hedges and Shorts 2010-2020: The Lost Decade

June 10, 2023

> "Those who cannot remember the past are condemned to repeat it." (George Santayana)

Given it has come up in lots of discussions, I thought it would be useful to review what has to be Fairfax's biggest ever investment mistake: the equity hedges and shorts from 2010-2020.

Why are they Fairfax's biggest investment mistake?

The 'equity hedges' were in place from 2010 to 2016… and they caused investment losses of $4.4 billion; an average loss of $628 million per year for 7 straight years.

Shareholders equity in 2010 was $7.7 billion. So, losing $628 million in ONE YEAR was a big deal. And, as a reminder, this happened, on average, for 7 straight years. Book value per share was $376 in 2010 and in 2016 it has fallen to $367. Yes, Fairfax did pay a $10/share dividend every year so shareholders did earn a positive return over these years.

Cumulative Losses Equity Hedges/Shorts		
2010	-$937	equity hedges
2011	$414	equity hedges
2012	-$1,006	equity hedges
2013	-$1,982	equity hedges
2014	-$195	equity hedges
2015	$502	euity hedges
2016	-$1,192	equity hedges/shorts
2017	-$418	short exposure
2018	-$38	short exposure
2019	-$58	short exposure
2020	-$529	short exposure
2010-2016	**-$4,396**	**Total**
2010-2016	-$628	Average
2010-2020	**-$5,438**	**Total**
2010-2020	-$494	Average

Why did Fairfax put on the equity hedge trade?

Back in 2010, Fairfax was afraid "the North American economy may experience a time period like the U.S. in the 1930s and Japan since 1990."

"2010 was a disappointing year for HWIC's investment results because of the two factors mentioned earlier. Hedging our common stock investment portfolio cost us $936.6 million or $45.61 per share in 2010. Our hedging program masked the excellent common stock returns we earned in 2010, of which a significant amount was realized ($522.1 million). We began 2010 with about 30% of our common stock hedged. In May and June, we decided to increase our hedge to approximately 100%. Our view was twofold: our capital had benefitted greatly from our common stock portfolio and we wanted to protect our gains, and we worried about the unintended consequences of too much debt in the system – worldwide! If the 2008/2009 recession was like any other recession that the U.S. has experienced in the past 50 years, we would not be hedging today. However, we worry, as we have mentioned to you many times in the past, that the North American economy may experience a time period like the U.S. in the 1930s and Japan since 1990, during which nominal GNP remains flat for 10 to 20 years with many bouts of deflation." Prem Watsa – Fairfax 2010AR

Why did Fairfax exit the equity hedge trade?

The US presidential election on November 8, 2016.

"Unfortunately, the presidential election on November 8, 2016 changed the world for us, so we reacted quickly by removing all our index hedges and some of our individual short positions and reducing the duration of our fixed income portfolios to approximately one year – all of which resulted in a $1.2 billion net loss on our investments in 2016 which, in turn, resulted in a loss in 2016 of $512 million or $24.18 per share." *Prem Watsa – Fairfax 2016AR*

But our sad story does not end here because even though Fairfax exited all of their equity hedge positions late in 2016, they continued with some individual company short positions. From 2017-2019, Fairfax lost another $514 million on short positions.

"In the past, to protect our equity exposures in uncertain times, we shorted indices (mainly the S&P500 and Russell 2000) and a few common stocks. After much thought and discussion, it became clear to me that shorting is dangerous, very short term in nature and anathema to long term value investing. As I mentioned to you in last year's annual report, shorting has cost us, cumulatively, net of our gains on common stock, approximately $2 billion! This will not be repeated! In the future, we may use options with a potential finite loss to hedge our equity exposure, but we will never again indulge anew in shorting with uncapped exposure. Your Chairman continues to learn–slowly!!"

Prem Watsa – Fairfax 2019AR

But even after the mea culpa above in the 2019AR, shareholders learned in 2020 that there was still one last mystery short position on the books. Only after another $529 million in losses in 2020, did Fairfax finally come to the conclusion that shorting was a tricky business. Margin and unlimited losses can be a bitch, especially in a decade long bull market (S&P500 was 1,133 on Jan 1, 2010 and 3,756 on Dec 31, 2020).

And there we have it: Fairfax's lost decade for shareholders from 2010-2020.

"I said in our 2019 annual report that we would not short stock market indices (like the S&P500) or common stocks of individual companies ever again, and our last remaining short position was closed out in 2020 (not soon enough, as it cost us $529 million in 2020)." *Prem Watsa – Fairfax 2020AR*

So, beginning in 2021, Fairfax shareholders were finally able to close the book on the whole 'equity hedge/short' trades.

What was the cost to Fairfax?

- Investment losses of $5.4 billion from 2010-2020, or $494 million per year on average.
- Additional significant opportunity cost - easily in the billions.
- The massive size of the losses each year likely warped capital allocation decisions, especially from 2010-2016, when the losses were larger.
- Long lasting harm to Fairfax's reputation in the investment community.
- Exit of many long-term shareholders.

What went wrong?

The size and duration of the position. The losses were massive. And they were allowed to go on (pretty much) for 11 straight years.

What explains the mistake?

No idea. But my guess is hubris. Fairfax had just made billions from 2007-2009 with their credit default spread (CDS) and equity hedge positions (this is discussed in the next post titled 'Credit Default Swaps 2005-2009: The Big Short – Fairfax Edition). That spectacular win likely laid the groundwork for their subsequent spectacular fall.

Hubris Comes From Ancient Greece

"English picked up both the concept of hubris and the term for that particular brand of cockiness from the ancient Greeks, who considered hubris a dangerous character flaw capable of provoking the wrath of the gods. In classical Greek tragedy, hubris was often a fatal shortcoming that brought about the fall of the tragic hero. Typically, overconfidence led the hero to attempt to overstep the boundaries of human limitations and assume a godlike status, and the gods inevitably humbled the offender with a sharp reminder of their mortality." *Merriam-Webster*

Will Fairfax make the same mistake again?

Well, this is where things get interesting. Fairfax has stated publicly numerous times that they won't make that exact same mistake again. To the best of my knowledge, they have never discussed publicly the failures with their internal processes that allowed such a flawed investment to be made (in such a large size and for such a long duration). Did they identify the internal failures? Have they made the internal changes necessary to ensure **it** (a terrible investment decisions that results in another lost decade for shareholders) does not happen again? I'm not sure…

Summary:

As shareholders, I think it is important that we discuss/remember not only Fairfax's successes but also their failures. I call it 'eyes wide open'. The equity hedges were an unmitigated disaster for Fairfax and its shareholders. There is no way to put lipstick on this pig.

What is missing from my analysis?

The 'equity hedge/short' trade was just one piece in the bigger picture of what Fairfax was doing as a company at the time. Fairfax's decisions are not made in a vacuum. That is perhaps the biggest flaw with my long-form posts… they usually do not include an overlay of other important 'big picture' pieces. Readers need to keep this in mind.

Comments from Prem and other notes from Fairfax's 2016AR.

"Unfortunately, the presidential election on November 8, 2016 changed the world for us, so we reacted quickly by removing all our index hedges and some of our individual short positions and reducing the duration of our fixed income portfolios to approximately one year – all of which resulted in a $1.2 billion net loss on our investments in 2016 which, in turn, resulted in a loss in 2016 of $512 million or $24.18 per share."

"When we removed our hedges near the end of 2016, we realized a loss of $2.6 billion in 2016, but that included $1.6 billion which had gone through our statements in prior years. As discussed earlier, since 2010 we have had $4.4 billion of cumulative net hedging losses and $0.5 billion of unrealized losses on deflation swaps (which we still hold), offset entirely by net gains on stocks of $2.7 billion and net gains on bonds of $2.2 billion. The volatility of our earnings caused by our hedges and long bond portfolios is over – and as I said earlier, we are focused on once again producing excellent investment returns." *Prem Watsa – Fairfax 2016AR*

Equity contracts: "Throughout 2015 and most of 2016, the company had economically hedged its equity and equity-related holdings (comprised of common stocks, convertible preferred stocks, convertible bonds, non-insurance investments in associates and equity-related derivatives) against a potential significant decline in equity markets by way of short positions effected through equity and equity index total return swaps (including short positions in certain equity indexes and individual equities) and equity index put options (S&P 500) as set out in the table below. The company's equity hedges were structured to provide a return that was inverse to changes in the fair values of the indexes and certain individual equities."

"As a result of fundamental changes in the U.S. that may bolster economic growth and business development in the future, the company discontinued its economic equity hedging strategy during the fourth quarter of 2016. Accordingly, the company closed out $6,350.6 notional amount of short positions effected through equity index total return swaps (comprised of Russell 2000, S&P 500 and S&P/TSX 60 short equity index total return swaps). The short equity index total return swaps closed out in 2016 produced a realized loss of $2,665.4 (of which $1,710.2 had been recorded as unrealized

losses in prior years). The company continues to maintain short equity and equity index total return swaps for investment purposes, and no longer considers them to be hedges of the company's equity and equity-related holdings. During 2016 the company paid net cash of $915.8 (2015 – received net cash of $303.3) in connection with the closures and reset provisions of its short equity and equity index total return swaps (excluding the impact of collateral requirements)." *Fairfax 2016AR*

Credit Default Swaps 2005-2009: The Big Short – Fairfax Edition

Updated June 3, 2024

Stanley Druckenmiller on position sizing:

"Sizing is 70% to 80% of the equation. Part of the equation is seeing the investment, part of the investment is seeing myself in a good trading rhythm. It's not whether you're right or wrong, it's how much you make when you're right and how much you lose when you're wrong," says Druckenmiller.

"I believe in streaks," he says, "Like in baseball. Sometimes you're seeing the ball, sometimes you're not. And my number one job is to know when I'm hot and when I'm not. When I'm hot, I need to turn the dial straight up. When you're cold the last thing you should do is make big bets to get even. You need to turn yourself down." *Stanley Druckenmiller*

https://moneyweek.com/investments/investment-strategy/605020/stan-druckenmiller-position-size-really-matters#:~:text="Sizing%20is%2070%25%20to%2080,re%20wrong%2C"%20says%20Druckenmiller

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In the book/movie, 'The Big Short', bestselling author Michael Lewis profiles three firms who made a financial killing from the bursting of the US housing bubble in 2008. How did they do it? They bought credit default swaps (CDS) in 2005 and 2006. Lewis describes it as "One of the best trades in Wall Street history."

"It's been called the worst financial crisis in modern times. Certainly, the largest financial disaster in decades in this country, and perhaps the end of an era in American business. In the end, Lewis Ranieri's mortgage-backed security mutated into a monstrosity that collapsed the whole world economy. And none of the experts and leaders or talking heads had a clue it was coming…. But there were some who saw it coming. While the whole world was having a big old party, a few outsiders and weirdos saw what no one else could… These outsiders saw the giant lie at the heart of the economy. And they saw it by doing something the rest of the suckers never thought to do. They looked." *Micheal Lewis – The Big Short*

The three firms profiled in 'The Big Short' were: Scion Asset Management (Dr. Micheal Burry), FrontPoint Partners (Steve Eisman) and Brownfield Capital (Charlie Gellar and Jamie Shipley). A small Canadian P/C insurer could also have been included in Lewis' book as a 4th participant. Yes, Fairfax Financial.

What was the trade?

They bought a financial derivative called a credit default swap.

In 'The Big Short' movie, a large investor in Burry's fund at Scion summed up the trade perfectly: "In other words, we lose millions until something that has never happened before happens?" Burry replied: "That's right."

Comments from Prem about the credit default swap position from Fairfax's 2005AR.

"Just a brief overview for you on our credit default swaps, which are 5-year to 10-year fixed income derivatives, which fluctuate with credit spreads, that we have purchased from major banks. Here is an example. To purchase a 5-year $100 million credit default swap on a company that sells at a 30 basis point spread over treasuries, one has to invest 150 basis points (30 basis points/year × 5 years), so $1.5 million purchases protection on an underlying $100 million of credit exposure of the chosen company over the next five years. The maximum loss to the purchaser in 5 years is $1.5 million if the credit spread stays at 30 basis points or tightens even further. On the other hand, if the credit spread on this company doubles to 60 basis points, the credit default swap can be worth as much as $3 million, and if the company goes bankrupt, that swap can be worth up to $100 million. We have a diversified list of companies, mainly financial institutions, with respect to which we have paid approximately $250 million to purchase protection on underlying credit exposures. Accounting rules require these credit default swaps to be marked to market (similar to our S&P500 hedges) on a quarterly basis and the resulting valuation adjustment to be treated as a realized gain or loss."

Prem Watsa – Fairfax 2005AR

Credit default swap definition:

"A credit default swap is a financial swap agreement that the seller of the CDS will compensate the buyer in the event of a debt default (by the debtor) or other credit event. That is, the seller of the CDS insures the buyer against some reference asset defaulting. The buyer of the CDS makes a series of payments (the CDS "fee" or "spread") to the seller and, in exchange, may expect to receive a payoff if the asset defaults." *Wikipedia*

A CDS is insurance on 'something'. It offers a big payout (as much as 20 to 1) if that 'something' defaults/goes bust. Burry bought CDS on MBS. Fairfax bought CDS on a variety of financial and insurance companies.

Why did Fairfax do it?

Fairfax bought the credit default swaps as a hedge - to protect its balance sheet from the risks that were forming as a result of the bubble that was blowing in the US housing market. It was protection for their insurance business (against the reinsurers) and their "investment portfolios from a potential (though low probability) financial market disaster."

Comments from Fairfax about the CDS position from the 2005AR.

> "The company has invested approximately $250 in 5-year to 10-year credit default swaps on a number of companies, primarily financial institutions, to provide protection against systemic financial risk arising from financial difficulties these entities could experience in a more difficult financial environment." *Fairfax 2005AR*

When did Fairfax start buying?

Fairfax initiated their CDS position in 2002. By 2005 they had invested $250 million. They were in early – likely among the first. How did it go initially? Not very well. Like Burry, Fairfax booked large investment losses the first couple of years: $101.6 million in 2005, and another $76.4 million in 2006.

In the movie 'The Big Short,' a realtor describes the US housing market in 2006 as follows: "The markets in an itsy-bitsy little gully right now."

But early in 2007, the US housing market began to quickly unravel, and it just kept getting worse from there. Fairfax added to their CDS position in early 2007. During the rest of the year the CDS worm began to turn and by the end of 2007, Fairfax was suddenly sitting on a $1 billion gain. 2008 saw Fairfax book another $1 billion gain. Fairfax sold most of their CDS positions in 2008 and early 2009, locking in sizeable gains.

How much did everyone make over the life of the trade?

- Scion = $2.69 billion
- FrontPoint = around $1 billion
- Brownfield = $50 million ($80 - $30 million initial investment)
- Fairfax = 2.1 billion (original acquisition cost was $318 million).

Fairfax sized its CDS position exceptionally well. And as a result, they made an enormous amount of money from it. For perspective, in 2008, common shareholder's equity at Fairfax was only $4.9 billion.

For the inside story of what actually happened at Fairfax from 2005-2009 see the quote from Brian Bradstreet at the end of this post. This story would make a great documentary.

An aspiring Canadian producer should get on it. The story would make a compelling addendum to 'The Big Short' (kind of like the recent documentary on YouTube titled 'Luc Longley and the missing chapter of the Last Dance').

How did Fairfax's share price perform?

Fairfax shareholders were big, big winners. For the 4-year period from 2005 to 2009, Fairfax shares increased 174%. During this same 4-year period, the S&P500 decreased 11%. On a relative basis, from 2005-2009, Fairfax's shares had close to 200% outperformance over the S&P500. I am getting a little déjà vu (of Fairfax outperforming again in a bear market).

Fairfax	Earnings per share	Book Value	Share Price		S&P 500	
2005	-$27.75	$137.50	$143.36		1,248	
2006	$11.92	$150.15	$198.50	38%	1,418	14%
2007	$58.38	$230.01	$286.13	44%	1,468	4%
2008	$79.53	$278.28	$313.41	10%	903	-38%
2009	$43.75	$369.80	$393.00	25%	1,115	23%
4-year change		169%	174%		-11%	

Lots of 'Corner of Berkshire and Fairfax' members made a killing on Fairfax stock over the 4 years from 2006-2009. In mid-2006, Fairfax's stock briefly traded below $100. It traded over $300/share in early 2008.

And a few board members made their own trade of the century: they purchased Fairfax leaps (in 2006?) and made millions (at the time Fairfax was traded on the NYSE so derivatives were available).

What does all this mean for Fairfax today?

Does something that happened around 15 to 20 years ago matter all that much today? I am not sure.

Of interest, a few of the people who were deeply involved with the CDS trade are still with the company. However, Fairfax - the company - is a completely different animal today. Most importantly, its insurance business is much larger and of much higher quality. Its bond portfolio is positioned perfectly. And its equity portfolio is high quality. As a result, Fairfax is generating record underwriting profit, record interest and dividend income, record share of profit of associates and solid investment gains - in short, the quality of the earnings streams Fairfax is generating today has never been better, and it appears durable.

What is missing from my analysis?

The CDS trade was just one piece in the bigger picture of what Fairfax was doing at the time. Over the same time period, Fairfax also had significant equity hedges on (this time they worked). And in 2006, the dirty and viscous short campaign against Fairfax reached its climax (driving the stock briefly below $100 in June of that year). Not spending more time on 'the bigger picture' is perhaps the biggest flaw with my long-form posts. Readers need to keep this in mind.

A long quote from Brian Bradstreet.

The summary below describes in detail the thinking that went into Fairfax's decision to invest in credit default swaps. It is from the book Fair and Friendly: The First 25 Years of Fairfax (published in 2010).

"When I looked at that, I got scared. The more I looked into those reinsurance companies, the more scared I got. The investment markets were bubbly. There was a lot of crazy risk-taking. We ourselves on the fixed-income side were being offered Ponzi-type stuff that came with an AA or AAA rating. So I began to fear that the reinsurance companies we were relying on to pay us might buy this junk and get into trouble and we wouldn't get paid. That would blow us right out of the water. And so I asked, How can we protect ourselves?

"With the help of our analysts, I started researching all these reinsurance companies to see how many treasury bonds they did or didn't own. If they owned a lot, I could rest easy. If they didn't own a lot, that meant they might not be able to pay us. What we found was that pretty well all of them, including the best of them like AIG, were taking enormous risks. That was our initial screening. Then we started to dig more, company by company, and we realized they owned all these asset-backed, mortgage-backed, high-yield bonds, which were pronounced as safe as treasury bonds but were in fact pure risk.

"One way to protect ourselves was to buy credit default swaps (CDSs), which were just appearing on the market around this time. They were basically bankruptcy insurance on the reinsurers. But I soon realized that we couldn't buy enough contracts on enough reinsurance companies to be diversified and fully protected. Then it occurred to me, Why don't we buy protection on the companies that are standing behind what the reinsurance companies are buying? If I was worried about the high-risk mortgage business, for example, why not buy insurance on the mortgage insurers in the United States? So we did. The next step was to buy insurance on the mortgage-lending companies like Fannie Mae and Freddie Mac, which were supposed to be government-backed but weren't in legal terms. Fannie Mae, for example, had $80 of exposure for every $1 of common equity, so it was a very good bet to fail.

"We bought our first contracts in 2003 and our last ones in December 2007. We just kept buying more and more, first five-year, then seven-year, because they were so cheap. By the end of 2006 we had invested $276 million in CDSs that the market valued at $72 million. At any other place I would have been kicked out on the street. Not here though. I remember going into an investment committee meeting where Prem asked, "What's the best idea we've got?" Francis Chou, who's a pretty shy guy, piped up, "Buy more credit default insurance." I didn't have the guts to say it."

Brian Bradstreet – Source: Fair and Friendly: The First 25 Years of Fairfax

A final summary from Prem on the credit default swap position from Fairfax's 2009AR.

For the last time, we include the table on our credit default swap positions and their disposition.

	Notional Amount	Original Acquisition Cost	Sale Proceeds	Excess of Sale Proceeds Over Original Acquisition Cost
FY 2007	965.5	25.7	199.3	173.6
FY 2008	11,629.8	245.8	2,048.7	1,802.9
Q1 2009	2,902.6	45.5	223.0	177.5
Q2 2009	140.3	1.4	8.6	7.2
Q3 2009	–	–	–	–
Q4 2009	–	–	–	–
Cumulative sales since inception	15,638.2	318.4	2,479.6	2,161.2
Remaining credit default swap positions at December 31, 2009	5,926.2	114.8	71.6(1)	(43.2)(2)
Cumulative realized and unrealized from inception	21,564.4	433.2	2,551.2	2,118.0

(1) Market value as of December 31, 2009

(2) Unrealized loss (measured using original acquisition cost) as of December 31, 2009

In total, since inception we have sold $15.6 billion notional amount of credit default swaps, with an original acquisition cost of $318 million, for cash proceeds of $2.5 billion and a cumulative gain (against original cost) of $2.2 billion. As of December 31, 2009, the remaining $5.9 billion notional amount of credit default swaps had a market value of $72 million against an original acquisition cost of $115 million, an unrealized loss of $43 million. If the remaining credit default swaps all went to zero, our shareholders' capital would be reduced by $72 million pre-tax. Our adventure with credit default swaps is over – but we will remember it as of one of the more significant events in our history!

A quick trip down memory lane of some of the memorable events from 2006-2008:

- in 2006, house prices peak
- in early 2007, house sales collapse
- April 2007, New Century Financial Corp., the largest subprime lender, files for bankruptcy
- Sept 2007, Fed cuts interest rates and the stock markets peak
- Jan 2008, Bank of America agrees to buy Countrywide (terrible decision in hindsight)
- March 2008, fire sale of Bear Stearns to JP Morgan
- Sept 2008, government nationalizes Fannie and Freddie
- Sept 2008, Lehman Brothers files for bankruptcy - the largest in US history
- Sept 2008, Fed bails out AIG (one days after Lehman bankruptcy)
- Sept 2008, big banks get bailed out with Troubled Asset Relief Program (TARP)
- Jun 2008 to March 2009, S&P500 falls 50%
- Nov 2008, Fed initiates quantitative easing - an effort to push down interest rates and boost economic activity.

Chapter 19: Large Asset Sales (Evaluating Past Capital Allocation Decisions)

My view is Fairfax continues to be a misunderstood company. Many important changes have been happening at the company over the past +7 years. These changes have made Fairfax a much better and much more profitable company today.

One way to better understand Fairfax's transformation is to review the large asset sales that have happened over the past +7 years. This will give us important insight into some important changes that have been happening 'under the hood' at Fairfax in recent years. And help investors make better sense of the company as it exists today.

We will attempt to answer some of the following questions:

- What was management thinking - why did they sell the asset?
- What was the financial impact of the sale?
- How does the asset sale impact Fairfax and its future?

But before we get started on our review of asset sales, let's start with a quick look at the big picture.

Capital allocation

Capital allocation is the most important responsibility of a management team. Why? Capital allocation decisions are what drive the long-term performance of a company - and important metrics like reported earnings, growth in book value and return on equity. In turn, these metrics drive the multiple given to a stock by Mr. Market - and finally the share price and returns for shareholders.

When done well, capital allocation does two important things:

1. Delivers a solid return.
2. Improves the quality of the company.

Why sell an asset?

There are a number of good reasons to sell an asset. Perhaps another company - who is willing to pay up - values an asset at a much higher value than you do (and what it is worth). There also can be important strategic reasons to sell an asset.

Asset sales have been a very important part of Fairfax's capital allocation framework over its entire existence, realizing significant value for Fairfax and its shareholders. Fairfax is unique among P/C insurance companies in how active it has been in using this important capital allocation tool.

To help with our understanding, we will group the asset sales at Fairfax's into two buckets: insurance and non-insurance.

Large Asset Sales - Insurance

- Eurolife – Life Ins. 2025 – Monetize a non-core asset/Return it to its rightful home
- Ambridge Group 2023 – Hitting a Solid single
- Pet Insurance 2022 – Capitalizing on a Mania/Bubble in Cats and Dogs
- RiverStone Europe 2020/2021 – Improving the Quality of the P/C Business
- ICICI Lombard 2017/2019 – A Strategic Pivot in India
- First Capital 2017 – The Amazing Mr. Athappan

Over the past 7 years, Fairfax has executed 5 large asset sales that involved their P/C insurance operations. The total proceeds from the 5 sales were $6.4 billion. The pre-tax gain was more than $3.8 billion or an average of $540 million per year - for each of the past 7 years. WOW!

Fairfax - Summary of P/C Insurance Sales from 2017 to 2023

July 9, 2024	Sale		Gain		
million	Date	Proceeds	Pre-tax	After-tax	Comments
First Capital	2017	$1,700		$1,000	
ICICI Lombard	2017/2019	$1,638	$1,241		
RiverStone Europe	2019/2020	$1,294	$117		Additional $235.7 contingent value instrument
Pet Insurance	2022	$1,400	$1,213		$934 gain pre-tax
Ambridge	2023	$379	$259		
Total		**$6,411**	**$2,830**	**$1,000**	

What else have we learned?

When looked at in aggregate, the 5 sales achieved the following:

1.) Delivered an outstanding return for Fairfax and its shareholders.
- First Capital, ICICI Lombard, pet insurance and Ambridge were all sold at premium valuations.

2.) Improved the quality of the company
- Strategic pivot in India (from ICICI Lombard to Digit, where they have a control position).
- Sold RiverStone Europe (run-off), one of their lower quality P/C insurance businesses.

Both objectives of good capital allocation were achieved.

But the story gets even better.

Did the significant sales materially shrink the size of Fairfax's P/C insurance business? It makes sense that it would have. **But it did not. In fact, the opposite happened.**

It appears Fairfax was able to use the significant proceeds from the asset sales to accelerate their growth – first by acquisition (2015-2017) and then in the hard market (late 2019 to today). Fairfax

grew net premiums written from $8.1 billion in 2016 to $22.9 billion in 2023, growth of 183% or a CAGR of 16%.

We included the per share numbers. Importantly, the growth in NPW over the 7 years period (2016 to 2023) did not happen as a result of the issuance of new shares.

Fairfax was able to have its cake (monetize assets at premium valuations) and eat it too (significantly grow NPW). Brilliantly executed.

Fairfax - 7 year Change in NPW

	Net Premiums Written	
	$bn	Per share
2016	$8.1	$350
2017	$10.0	$359
2018	$12.0	$442
2019	$13.3	$495
2020	$14.7	$562
2021	$17.8	$745
2022	$22.3	$957
2023	$22.9	$996
Increase	**$14.8**	**$645**
2017 to 2023	**183%**	**184%**
CAGR	**16%**	

Value investing

When most investors think of value investing, they think exclusively in terms of equities. The value investing framework is infused into all parts of Fairfax - investments and P/C insurance.

The benefits of active management

The 5 P/C insurance asset sales executed by the Fairfax team over the past 7 years have delivered significant value to the company and its shareholders. They helped the company weather the significant storms – that were being caused by the investment side of the business. That is what we will review later in the 'non-insurance asset sales' part of this chapter.

Eurolife – Life Insurance – Oct 2025 – Monetize a Non-Core Asset/Return it to its Rightful Home

October 14, 2025

On October 13, 2025, Fairfax announced it had done two things:

- Sold its 80% ownership stake in Eurolife's life insurance business to Eurobank for $944.7 million (€813 million). P/BV multiple is 1.45x at August 31, 2025. Eurobank owned the other 20%.
- Purchased a 45% stake in Eurobank's P/C insurance business in Cyprus (ERB Asfalistiki) for $69 million (€59 million). P/BV multiple is 1.45x at August 31, 2025. Fairfax has the right to buy the remaining 55% stake in ERBA over time.

The deal is expected to close in Q1, 2026. Speculation is the transaction could result in a realized investment gain for Fairfax of about $300 million (pre-tax). We should get more financial details on the transaction from Fairfax in the coming months.

Press releases from Fairfax and Eurobank with transaction details

- https://www.fairfax.ca/press-releases/fairfax-sells-interest-in-eurolife-life-insurance-operations-to-eurobank-2025-10-13/

- https://www.eurobankholdings.gr/en/grafeio-tupou/etairiki-anakoinosi-13-10-2025-i

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What return did Fairfax generate on its investment in Eurolife over the past 9 years? (The initial purchase closed August of 2016.) We will need to wait until Fairfax reports results to get the full picture. My guess is this investment has worked out exceptionally well for Fairfax and its shareholders. The return Fairfax earned will be comprised of the following items:

- Total amount paid by Fairfax for 80% stake in Eurolife
  - Aug 2016 = 40% = $181.0 million (€162.5)
  - 2017 to 2021 = 10% = amount paid? (My guess is about €40 million)
  - July 2021 = 30% = $142.7 million (€120.7)
- Dividends paid from Eurolife to Fairfax
  - Although we don't get the exact amount that went to Fairfax, we can assume it was a big number (compared to the amount they had invested).
- Total amount paid to Fairfax for its 80% stake in Eurolife life insurance:
  - $944.7 million (€813).
- Value of 80% of Eurolife's P/C business which Fairfax continues to own.
  - At Dec 31, 2024, shareholders' equity (100%) = €66.1 million (US$68)
  - If we value the business at 1.5x BV = US$100 million. This puts Fairfax's ownership stake at about US$80 million.

Summary

Fairfax paid $181 million in August 2016 for 40% of Eurolife. Over the next three years it received large dividend payments from Eurolife (likely covering much of the initial purchase price). It invested about another $190 million from 2017 to 2021 to increase its ownership to 80%. In October 2025 it sold its 80% stake in Euolife's life insurance business for $944.7 million. It is retaining its 80% ownership position in Eurolife's P/C insurance business likely worth about $80 million.

This is important to understand because it gives us the opportunity to evaluate the management team at Fairfax and their capital allocation abilities.

Below are some initial key take-aways from this transaction.

1.) This is a very large transaction. Proceeds to Fairfax will be $876 million ($944.7m less $69m).

2.) This is a strategic transaction.

- Financial services in SE Europe is moving to an integrated model - banking, wealth management and insurance. Life insurance is a core business for Eurobank (buyer). Not for Fairfax (seller).
- Fairfax continues to own 80% of Eurolife's P/C insurance business in Greece/Bulgaria. And expands into Cyprus (buying 45% of Eurobank's P/C insurance business in Cyprus for $69 million).

3.) The price being paid is fair for both parties (P/BV = 1.45 x at Aug 31, 2025).

- This makes sense given Fairfax owns about 32.3% of Eurobank.

4.) This deal demonstrates that Fairfax is a good long term partner.

- When it needed cash back in 2016, Eurobank sold 80% of Eurolife to Fairfax.
- Now that it is flush with cash, the life insurance asset is being returned to Eurobank - where it has always belonged. This should help Fairfax with future deal flow.

5.) Fairfax's use of minority partners has been brilliant.

- When Fairfax bought 80% of Eurolife in 2016 (for $361 million) they were also short on cash. They brought on OMERS as a short term partner, with each paying $180 million for 40% of Eurolife. Fairfax took out OMERS in 2021.

6.) This transaction allows Fairfax to successfully monetize another investment. Fairfax should book a large investment gain when the deal closes in Q1-2026.

- In very rough terms, Fairfax paid about $361 million in two instalments (2016 to 2021) for 80% of Eurolife. Fairfax has also received significant dividends from Eurolife. When the

deal closes, Fairfax will be paid $944.7 million and will continue to own the legacy P/C insurance business of Eurolife.
- We will likely get more of the financial details when Fairfax reports Q3 results.

7.) This transaction will come as a surprise to investors/analysts. It shouldn't. This is the third asset monetization of 2025 for Fairfax (after Sigma in Q1 and Praktiker in Q3). Each year Fairfax monetizes/revalues a number of assets - it is an important part of their business model.

- For 8 years Fairfax has been improving the quality of the assets (insurance and equities) on its balance sheet. With transactions like Eurolife, we are seeing the results. With much more to come.

8.) Over the past 5 years, Fairfax has been delivering a masterclass in capital allocation. This transaction is just the latest in a long list of accomplishments for the company. Welcome to 'new Fairfax.'

A short history of Eurolife

Eurobank and Eurolife are joined at the hip. Eurolife was created by Eurobank in 2000. Eurolife has two businesses: life and P/C insurance. Of the two, life insurance is the much larger piece.

In 2015, when it needed money, Eurobank sold 80% of Eurolife to Fairfax for $361 million (the deal closed in 2016). Eurobank retained the other 20%.

Eurobank is now flush with cash. In October of 2025, Fairfax sold its 80% stake in the life insurance business of Eurolife back to Eurobank. Fairfax continues to own its 80% interest in the P/C insurance part of Eurolife and Eurobank owns the other 20%.

There so many interesting threads that can be woven into this story

The importance of having a seat at the table

I have been quite critical of Fairfax's initial investment in Eurobank.

Eurolife has been a very good investment for Fairfax. At least that is my assumption given what we know today. We will know much more as Fairfax discloses more details on the transaction.

It is likely that a big reason Fairfax was able to purchase 80% of Eurolife in 2016 was because it was already a large shareholder of Eurobank.

I tend to look at Fairfax and its various holdings/decisions in a very narrow way. This can sometimes be too simplified of a way to look at things. Readers need to keep this in mind.

Minority partners

Using a minority partner (OMERS in this case) allowed Fairfax to buy 80% of Eurolife when it was short on cash in 2016. Fairfax took out OMERS in 2021. Having the ability to use the balance sheet of trusted, long term external partners like OMERS is a big benefit for Fairfax.

In a kind of an ironic twist, Fairfax could now use the significant proceeds from the sale of its 80% stake in Eurolife's life insurance business ($944.7 million) to take out its minority partner in Allied World. Essentially, it's kind of like Fairfax trading its 80% ownership position in Eurolife's non-core life insurance business for the 16.6% of Allied World that is currently owned by minority partners (bringing Fairfax's ownership in Allied World to 100%). Allied World has been Fairfax's top performing P/C insurance subsidiary in recent years. That looks like a very good trade in my book.

'Transaction tree'

In sports it can be quite interesting to put together a 'trade tree' for when a player is traded which visually captures all subsequent trades of the players and draft picks involved.

It would be really interesting to try and construct a 'transaction tree' for Fairfax that captures an initial investment and then (over the years) all the subsequent 'trades' in the form of money in (dividends and proceeds as the asset is monetized) and money out (what the proceeds were then reinvested into). In a chart.

This would provide a very interesting take on the long term value creation that has been happening at Fairfax, especially in recent years. It would show how one good transaction often leads to many more good transactions in future years.

Yes, this is hard to do in practice. However, I think it has merits as a thought exercise. It would likely really demonstrate the power of compounding and time - as it pertains to Fairfax's business model today (and how well they have been executing).

Select quote on Eurolife from past annual reports of Fairfax

Details of the Fairfax's take-out of OMERS from Fairfax's 2021AR.

> On July 14, 2021 the company increased its interest in Eurolife FFH Insurance Group Holdings S.A.("Eurolife") to 80.0% from 50.0% by exercising a call option valued at $127.3 to acquire the joint venture interest of OMERS for cash consideration of $142.7 (€120.7). The assets, liabilities and results of operations of Eurolife's life insurance business were consolidated in the Life insurance and Run-off reporting segment and those of Eurolife's property and casualty insurance business were consolidated in the Insurance and Reinsurance – Other reporting segment, pursuant to which the company remeasured its 50.0% joint venture interest in Eurolife to its fair value of $450.0 and recorded a net gain of $130.5 in gain on sale and consolidation of insurance subsidiaries in the

consolidated statement of earnings, inclusive of foreign currency translation gains that were reclassified from accumulated other comprehensive income (loss) to the consolidated statement of earnings. The remaining 20.0% equity interest in Eurolife continues to be owned by the company's associate Eurobank. Eurolife is a Greek insurer which distributes its life and property and casualty insurance products and services through Eurobank's network and other distribution channels.

Comments from Prem about the Eurolife purchase from Fairfax's 2019AR.

Through the crisis in Greece, we acquired a gem in Eurolife, a Greek property and casualty and life insurance company that operates predominantly in Greece but also in Romania. Alex Sarrigeorgiou has run Eurolife since 2004, following Eurobank's decision to grow its insurance business, and we acquired it with OMERS as our partner in 2016. Since our initial 40% purchase of Eurolife in 2016 for €163 million, Eurolife has earned €347 million and paid dividends of €298 million and shareholders' equity has increased from €400 million to €720 million at the end of 2019 after the payment of dividends. This phenomenal performance was predominantly because Eurolife had a significant holding of Greek government bonds whose rates went from 8% to 1% during that time period while its non-life business had an average combined ratio of 72%. We currently own 50% and equity account for Eurolife but plan to buy the rest of OMERS' shares in 2020.

Comments from Prem about the Eurolife purchase from Fairfax's 2017AR.

Not shown in the table above is our investment in Eurolife led by Alex Sarrigeorgiou. As you know, Eurolife is one of Greece's leading life and non-life insurance companies, created by Eurobank in 2000. We bought our share of Eurolife in 2016 for $181 million, with Eurolife being 40% owned by us, 40% by OMERS and 20% by Eurobank. We expect to buy out OMERS within the next two years, so Eurolife will become a Fairfax insurance subsidiary. Eurolife has earned $111 million (our share) since we acquired it, benefitting greatly from a Greek bond portfolio of about €1 billion. The non-life portfolio had a combined ratio less than 70% again in 2017. We are very excited to be partners with Alex and his team at Eurolife as they build a very successful company in Greece.

Details of the Eurolife purchase from Fairfax's 2016AR.

On August 4, 2016 the company acquired a 40.0% indirect interest in Eurolife ERB Insurance Group Holdings S.A. ("Eurolife") from Eurobank Ergasias S.A. ("Eurobank") for $181.0 (A162.5). On the same day, Ontario Municipal Employees Retirement System ("OMERS"), the pension plan manager for government employees in the province of Ontario, Canada, also acquired a 40.0% indirect interest in Eurolife from Eurobank at the same price. OMERS has a dividend in priority to the company, and the company will have the ability to acquire the Eurolife shares owned by OMERS over time. Eurolife, which distributes its life and non-life insurance products and services through Eurobank's network, is an insurer in Greece with gross written premiums of approximately $549 during 2016.

Comments from Prem about the Eurolife purchase from Fairfax's 2015AR.

Late in 2015 we agreed to acquire 80% of Eurolife, a life and property and casualty insurance company which is the third largest insurer in Greece and which distributes its products through Eurobank's network, for $347 million (€316 million) – at about its underlying book value. We got to know Alex Sarrigeorgiou in the last few years and were very impressed with him, his management team and their track record. The company writes €306 million in premiums – €248 million in life insurance and €58 million in property and casualty. Over the past ten years, the property and casualty operations have had a combined ratio of 60.0% while the life insurance operations produce stable earnings with plain vanilla products. Eurolife had net income in 2015 of €48.4 million, 45% from life and 55% from P&C. We welcome Alex Sarrigeorgiou and the over 300 employees of Eurolife to the Fairfax family. As we did with Brit, where OMERS purchased 30% from us to help us finance the acquisition, we expect OMERS to buy 40% of Eurolife's shares at close to help us finance the acquisition. In the case of both Brit and Eurolife, we expect to be able to acquire the interests back within the five years after closing, after providing OMERS with an acceptable return. The team at OMERS has been a pleasure to deal with.

Ambridge Group – January 2023 – Hitting a Solid Single

July 10, 2024

Successful investing is not only about hitting home runs. Investors (and baseball fans) love home runs – they are very exciting when they happen. But sometimes the best way to win the game is to simply play good fundamental baseball – hitting, catching, throwing, fielding and base-running.

The sale of the Ambridge Group is another good example (there are many) of how well the 'team Fairfax' has been executing in recent years. The sale of the Ambridge Group was not a home run. But it was a solid single. It is execution like this that keeps moving the runners around the bases. Which in turn scores more runs. Strong fundamental execution - not just hitting home runs - is needed for Fairfax to be successful.

In January 2023, Fairfax (Brit) sold Ambridge Group. Total proceeds were $379 million. Brit purchased Ambridge in two separate transactions (2015 and 2019) at a total cost of $76 million. The gain on the sale was a whopping $259 million pre-tax.

The sale of Ambridge is yet another example of Fairfax/Brit being opportunistic. They sold Ambridge at what looks to have been a premium valuation. Well done.

Fairfax - A History of the Ambridge Group Investment

	Initial Investment	Cost	Proceeds	Gain Pre-tax
Purchase #1 (50%)	2015	$29		
Purchase #2 (50%)	2019	$47		
Sold	2023	$76	$379	$259

Of interest, Fairfax purchased Brit for $1.657 million in 2015. Ambridge was sold for $379 million, and resulted in a gain of $259 million pre-tax.

Comments from Prem about the Ambridge sale from Fairfax's 2023AR.

"Early in 2023 we announced the sale of Ambridge Group to Amynta Group, a Managing General Underwriter (MGU) that offers transactional, specialty casualty, cyber, professional liability and reinsurance coverages and writes on behalf of Brit and a number of other global insurers. Brit received total proceeds of $379 million, comprised of cash of $266 million and a promissory note of $113 million. Brit acquired 50% of Ambridge in 2015 for $29 million and the remaining 50% in 2019

for $47 million. Amynta, which, by the way, is run by Rob Giammarco whom we have known for almost 30 years, will be great owners of Ambridge in building a high-quality MGU business with expanding markets and carriers. Ambridge and Amynta remain key partners for Brit, and we look forward to continuing our strong relationship with them as an independent MGU. We wish Rob Giammarco, J. Pryor, J. Cowhey and the rest of the team all the best in the future." *Fairfax 2023AR*

More details of the Ambridge sale from Fairfax's 2023AR.

Sale of Ambridge Group by Brit
On May 10, 2023 Brit sold Ambridge Group ("Ambridge"), its Managing General Underwriter operations, to Amynta Group. The company received $379.0, comprised of cash of $265.8 and a promissory note with a fair value of $113.2. As a result of the sale, the company recorded a pre-tax gain of $259.1 in gain on sale and consolidation of insurance subsidiaries in the consolidated statement of earnings (an after-tax gain of $259.1) and deconsolidated assets and liabilities with carrying values of $309.3 and $191.3 respectively. *Fairfax 2023AR*

More historical information about Fairfax and Ambridge.

From Brit 2021 YE Press Release: "In 2021, we combined our US operations to create a single operation under the Ambridge brand. It now operates as a global MGA, managing over $600m of premium in the US and internationally. Our clients have the benefit of the well-recognised Ambridge MGA model giving them better access to products and enhanced service, and our underwriting teams are better able to capitalise on business opportunities."

FFH 2019AR: "On April 18, 2019 Brit acquired the 50.0% equity interest in Ambridge Partners LLC ("Ambridge Partners") that it did not already own for $46.6, remeasured its existing equity interest to fair value for a gain of $10.4, and commenced consolidating Ambridge Partners."

FFH 2016AR: "In 2015 Brit purchased 50% of Ambridge Partners, one of the world's leading managing general agencies of transactional insurance products. In 2016 Ambridge produced gross premiums written of $32 million for Brit at a combined ratio well below 100%."

FFH 2015AR: "In December, Brit made an investment in Ambridge Partners, one of the world's leading managing general underwriters of transactional insurance products. These products insure losses as a result of breaches or inaccuracies in warranties and indemnities relating to M&A, restructuring activities, business financing and tax issues. Ambridge, which has been a partner of Brit for the last nine years, produces $128 million of premiums and is highly profitable. We welcome Jesseman Pryor (CEO), Jeffery Cowhey (President) and their team of 29 employees to Fairfax."

Pet Insurance – June 2022 – Capitalizing on the Mania in Cats and Dogs

July 10, 2024

Pets have been a rapidly growing business segment in North America for the past 30 years. Covid took this growth to a new, higher level. Especially the services part of the business (veterinary services, pet insurance, supplies etc). On the service side, the business model was shifting to a 'one stop shop' model for pet owners – get all your pet needs taken care by one provider. The big players in the industry (like JAB Holding) were in a race to consolidate (to get scale) and the price for good assets went through the roof – reaching mania/bubble proportions.

Fairfax had no desire to expand into other aspects of the pet business (vet care or supplies). Therefore, consolidation was a significant risk to its pet insurance business.

> "While the pet insurance market was valued at US$10.1 billion in 2023, a report from Allied Market Research revealed that it is projected to reach US$38.3 billion by 2033, growing at a compound annual growth rate (CAGR) of 14.5% from 2024 to 2033."
>
> https://www.insurancebusinessmag.com/ca/news/breaking-news/doubledigit-growth-projected-for-pet-insurance-market-489864.aspx#:~:text=While%20the%20pet%20insurance%20market,14.5%25%20from%202024%20to%202033.

What do you do when someone offers you an obscene price for a business?

In June 2022, Fairfax announced it had sold its pet insurance business (which resided in Crum & Forster) to JAB Holding for $1.4 billion. With the sale, Fairfax realized a gain of $1.2 billion pre-tax and $934 million after-tax.

The reaction from investors? Disbelief. Even investors who were knowledgeable about Fairfax didn't know Crum & Forster actually owned a pet insurance business – it was so small.

Fairfax's stock actually sold off in the months after they announced the sale. It was like Mr. Market refused to believe that the announced deal was real. It was a little surreal. Of course, Q3-2022 was a wonderful time to buy Fairfax's stock (it traded as low as $450/share).

The sale of the pet insurance business has resulted in one of Fairfax's great investment gains ever. The business was worth much more to JAB than it was to Fairfax. Selling it at a premium valuation was the right decision. This is a great example of Fairfax being open minded and opportunistic with its capital allocation framework.

The fact they were able to execute the deal in the middle of a bear market (in both stocks and bonds) was also significant – this provided the opportunity to also reinvest the significant proceeds into other assets that were selling at steep discounts and/or support the growth of the insurance subsidiaries in the hard market.

This is a great example of the significant benefits that can come from active management - sell an asset at a bubble high price and flip the proceeds into other assets selling at bear market low prices.

Test driving a new capital allocator

JAB Holdings has a long and successful track record. As part of the deal to sell its pet insurance business, Fairfax agreed to invest $200 million with JAB – a relatively small sum for Fairfax. Fairfax has a long history of doing this. If they like what they see they will likely expand their relationship with JAB in the future - give them more money to invest. This is a great way to find/establish relationships with the best global capital allocators.

A Short history of the pet insurance business at Fairfax

In 2013, Crum and Forster purchased pet insurer The Hartville Group (based in US) for $34 million. In 2014, Fairfax purchased Pethealth (based in Canada) for $89 million. In August of 2020, Pethealth was folded into Crum and Forster, creating the 4th largest pet insurance business.

- https://www.cfins.com/pethealth-to-combine-with-crum-will-create-fourth-largest-pet-insurance-enti/

Fairfax - A History of Pet Insurance Investment

	Initial Investment	Cost	Proceeds	Gain Pre-tax	Gain After-tax
Hartville Group (US)	2013	$34			
Pethealth (Canada)	2014	$89			
Sale	2022	$123	$1,400	$1,213	$934

What was the size of the pet insurance business?

Based on Prem's answer to a question on Fairfax's Q2, 2022 conference call, the annual revenue was $350 million. This was a very small business – when compared to the price it sold for.

> Mark Dwelle (RBC): "…Another quick numbers question. If I may, on the sale of the Pet Insurance business. Can you give us a sense of kind of a range of about how much revenue you'll be, I guess, selling when that happens? And again, it's just I'm trying to understand as we get into next year, that's revenue that will go away from Crum and to be able to keep track of the run rate there."
>
> Prem Watsa: "…But forex must be $350 million, and it's a Pet Insurance and it's in the United States, mainly, but Canada and then the UK, some, and obviously, we like the price. But JAB is they get a lot of good things from Crum, including data on 30 million pets, and ASPCA support for 16 years. And so we think it's a win-win. We think JAB is going to do extremely well. They're focused on this segment. Not only Pet Insurance, but supplies and pet care hospitals. And we just think they'll -- this company has done very well we've seen what they've done in coffee. And we think over time, they're going to do very well. *Fairfax's Q2 Earnings Conference Call*

Comments from Prem on the sale of the pet insurance business from Fairfax's 2022AR.

"**Late in 2021, Gary McGeddy, who runs the Accident and Health division at Crum & Forster, called Andy to suggest that we sell our pet insurance business as there was much consolidation taking place in the pet industry (insurance, food, hospitals, etc.) and we were perhaps not well placed to benefit from it.** After much discussion, Morgan Stanley introduced us to Olivier Goudet, CEO of JAB Holdings. JAB, under Chairman Peter Harf and CEO Olivier Goudet, has a terrific record of consolidating many industries, including coffee and restaurants, so we decided to sell our pet insurance business to them for $1.4 billion, resulting in a net pre-tax profit of $1.2 billion. As JAB has a very impressive record, we decided to invest $200 million in their Fund 5 (which focuses on the pet industry), and also take back a $250 million note with an interest rate of 6% as part of the sale proceeds. We think JAB will be a great owner of our pet insurance business and wish them and all our employees much success." *Fairfax 2022AR*

More details on the sale of the pet insurance business from Fairfax's 2022AR.

"On October 31, 2022 the company sold its interests in the Crum & Forster Pet Insurance Group and Pethealth, including all of their worldwide operations, to Independence Pet Group and certain of its affiliates, which are majority owned by JAB Holding Company ("JAB"), for $1.4 billion, paid as $1.15 billion in cash and $250.0 in debentures. The company also committed to invest $200.0 in JCP V, a JAB consumer fund. As a result of the sale, the company recorded a pre-tax gain of $1,213.2, inclusive of foreign currency translation losses that were reclassified from accumulated other comprehensive income (loss) to the consolidated statement of earnings, and selling expenses, in gain on sale and consolidation of insurance subsidiaries in the consolidated statement of earnings (an after-tax gain of $933.9), and deconsolidated assets and liabilities with carrying values of $149.1 and $32.0." *Fairfax's 2022AR*

Details of Fairfax's Acquisition of Hartville Group and Pethealth

Media release of Fairfax's acquisition of Hartville in 2013.

TORONTO, ONTARIO--(Marketwired - May 15, 2013) - Fairfax Financial Holdings Limited (TSX:FFH) announces the signing of a merger agreement with Hartville Group, Inc., of Canton, Ohio, pursuant to which Hartville will become wholly-owned by Crum & Forster's United States Fire Insurance Company. The transaction, which is subject to customary conditions including regulatory approval, is expected to close early in the third quarter of 2013.

Hartville, one of the oldest and largest pet insurance providers in the U.S., provides pet insurance plans under several brand names, including Hartville Pet Insurance and the Petshealth Care Plan.

Hartville also is the exclusive strategic partner for pet insurance with The American Society for the Prevention of Cruelty to Animals®.

"We are very excited to have Hartville join the Fairfax group," said Prem Watsa, Chairman and CEO of Fairfax. "This acquisition represents a new phase in our existing relationship with Hartville through Fairmont Specialty. As a result of the vertical integration created by this merger, Hartville's pet insurance programs will be uniquely positioned in the industry to generate sustainable growth."

Media release of Fairfax's acquisition of Pethealth in 2014.

TORONTO, ONTARIO, August 29, 2014 – Fairfax Financial Holdings Limited (TSX: FFH) and Pethealth Inc. (TSX: PTZ) announced today that they have entered into an arrangement agreement under which Fairfax will acquire all of the outstanding common shares of Pethealth for $2.79 per share in cash. In addition, under the terms of the transaction, Fairfax will acquire all of the outstanding preferred shares of Pethealth for a purchase price of $2.79 per share in cash, plus any dividends accrued but unpaid up to, but excluding, the day of closing.

The purchase price represents a premium of approximately 26% to the closing price of Pethealth's common shares on the TSX on August 29, 2014 and a premium of approximately 69% to the closing price of Pethealth's common shares on the TSX on August 15, 2014. The purchase price also represents a premium of approximately 69% to Pethealth's volume weighted average share price for the twenty trading days ending on August 15, 2014 and a premium of 36% to the all-time high price of Pethealth's common shares prior to such date.

Total cash consideration of approximately $100 million will be paid for Pethealth's common and preferred shares and options. The transaction, which will be completed by way of a plan of arrangement (the "Arrangement"), is subject to certain customary closing conditions, and is expected to close in the fourth quarter of 2014.

Riverstone Europe – 2020 to 2021 – Improving the Quality of the P/C Insurance Business

July 10, 2024

In two different transactions, Fairfax sold the biggest piece of its run-off business, RiverStone Europe, for announced total proceeds of about $1.5 billion. In December of 2019, Fairfax sold 40% of RiverStone Europe to OMERS for $599 million. In December of 2020, CVC Capital Partners bought 100% of RiverStone Europe - taking out both Fairfax and OMERS.

Fairfax - Summary of Sale of Riverstone Europe

	Stake	Amount million	Pre-tax Gain	Comments
OMERS	40%	$599.0	$117.1	Initial transaction Dec 20, 2019
CVC Capital Partners	60%	$695.7		Remainder sold Dec 2, 2020 (cash = $462)
		$235.7		Contingent value instrument - potential proceeds
Total		**$1,530.4**	**$117.1**	

This was a significant sale for Fairfax for a couple of reasons:

1. It dramatically shrunk the size of Fairfax's run-off business by more than 70%. In turn, the sale likely materially reduced Fairfax's exposure to long-tail insurance liabilities (a good thing in the high inflation world of today). For P/C insurers, run-off businesses are generally considered to be low quality. Selling RiverStone Europe improved the overall quality of Fairfax's remaining P/C insurance business.
2. 2019/2020 was also a time when Fairfax was short on cash. Their investment portfolio was underperforming. The timing of this sale was very good.
3. By late 2020, it was clear the hard market in P/C insurance had arrived. Fairfax was aggressively expanding its P/C insurance business - to do this some of the insurance subs would need more capital. The proceeds from the sales of RiverStone Europe would be put to very good use.

Essentially, Fairfax was able to sell the majority of its run-off business for a fair price. And use the proceeds to then aggressively grow its P/C insurance business in a hard market. They were able to shift a significant amount of capital from a low quality business into high quality businesses. Well at least that is what it looks like they did (looking at it today).

A short review of Fairfax's run-off business

Fairfax had two run-off operations: The Resolution Group (TRG - US) and RiverStone Europe.

Run-off has historically been a very large part of Fairfax's total P/C insurance business. It looks like the run-off business peaked out at 25% of Fairfax's common shareholders' equity at December 31, 2014 - nine short years ago. Today (December 31, 2023), the runoff business represents 1.8%. That is a massive reduction in size.

The first big step down (to 14%) happened in 2017 - that is the year Allied World was purchased. The second big step down (to 4%) happened in 2019, when Fairfax sold 40% of RiverStone Europe to OMERS (and RiverStone Europe was deconsolidated). But it is also interesting to note that since 2020, Fairfax has continued to shrink the size of its runoff business (in both absolute and percentage terms).

Does this make Fairfax a higher quality P/C company than it was in the past? Yes, I think it does. But I am not an insurance expert.

Fairfax - A Review of the Size of the Runoff Business

$m Dec 31	Fairfax Common Shareholders' Equity	Runoff Shareholders' Equity	Runoff Share of Total	Comments
2013	$7,187	$1,598	22.2%	TRG + RiverStone
2014	$8,361	$2,065	24.7%	TRG + RiverStone
2015	$8,953	$1,994	22.3%	TRG + RiverStone
2016	$8,485	$1,739	20.5%	TRG + RiverStone
2017	$12,476	$1,751	14.0%	TRG + RiverStone
2018	$11,779	$1,595	13.5%	TRG + RiverStone
2019	$13,043	$1,842	14.1%	TRG + RiverStone
2020	$12,521	$506	4.0%	TRG
2021	$15,200	$376	2.5%	TRG
2022	$17,780	$405	2.3%	TRG
2023	$21,615	$414	1.9%	TRG

What is runoff?

"Run-off portfolio refers to insurance policies or reinsurance contracts terminated but for which the Insurer or the Reinsurer remains liable for until the final settlement and payment of the claims. It may be a business or a territory for which the Insurer or Reinsurer is no longer operating but where contracts or liabilities are still in force."

"Due to these outstanding claims or the potential claims to be notified, the Insurer or Reinsurer must set up reserves; especially for long tail businesses (such as motor liability, medical malpractice, and general third party liability). These risks are highly volatile. Moreover, discontinued run-off businesses must respect Solvency 2 rules. Their management requires resources. Run-off liabilities may require significant equity at the expense of the development of new businesses." *Source: CCR RE*

https://blog.ccr-re.com/en/what-is-run-off

PWC Global Insurance Run-off Survey

https://www.pwc.com/gx/en/industries/financial-services/publications/global-insurance-run-off-survey.html

Why did Fairfax sell RiverStone Europe?

RiverStone Europe was a quality business. It was well run and profitable. But it also wanted to grow - and to do that it needed capital - and a lot of it.

But in the years before 2021, Fairfax did not have a lot of excess capital. And with the hard market, any excess capital Fairfax did have was going to go to its traditional P/C insurance business - not runoff.

The solution? Sell RiverStone Europe for a fair price. And then use the proceeds to aggressively grow the traditional P/C business in the hard market. And that is what Fairfax has done.

What a smart strategic pivot.

The sale was also a very good move for RiverStone Europe. It looks like they have been growing like a weed the past couple of years and are very profitable. This sale looks like it was a win for everyone involved.

RiverStone International - 2023AR

https://www.rsml.co.uk/wp-content/uploads/2024/05/RIHL-Consolidated-2023-Annual-Report.pdf

Was it a mistake for Fairfax to sell RiverStone Europe?

My view is Mr. Market does not like P/C insurance businesses that have a big run-off business. For a whole bunch of reasons. As a result, it was highly unlikely they were ever going to value a 'good' run-off business appropriately.

We all think Fairfax should trade at a much higher multiple than what it is trading at today. That likely would not happen if the runoff business was still 20 to 25% of shareholders' equity.

Of note, with the sale, Fairfax did give up a significant amount of investments ($2.375 billion at Dec 31, 2019).

Details of RiverStone Europe's Sale To CVC From Fairfax's 2020AR

"**Late in 2020 we announced the sale of RiverStone Europe (owned 60% by us and 40% by OMERS) to CVC Capital Partners. RiverStone Europe is an industry leader in run-off insurance services, and CVC's scale and vision will give RiverStone Europe, under the continued leadership of Luke Tanzer and his management team, the opportunity to further grow the business. Nick Bentley and Luke are also very supportive of this transaction, based on their strong belief that it is the best way for RiverStone Europe to continue to grow and pursue run-off transactions**. RiverStone Europe was born out of the acquisition of Sphere Drake Insurance Company. Due to performance issues, in 1999 it was put under the management of

RiverStone. For the first ten years RiverStone Europe was kept busy with many of our own run-off portfolios including Sphere Drake Bermuda, Skandia UK, CTR and the Kingsmead Agency at Lloyd's. By 2008 they drove down the reserves and were down to only 53 staff and $100 million in capital. Instead of closing the operations we pivoted from internal run-off to third party acquisitions. They did their first deal in 2010 and have never looked back. They have completed over 20 transactions bringing in over $5 billion of assets and producing a great return on capital, which allowed us to sell the company at $1.35 billion. RiverStone Europe is a great story of success, first directly under the leadership of Nick Bentley and then for the last twelve years Luke Tanzer. We wish Luke and all employees at RiverStone Europe much success in the future."

"We began equity accounting RiverStone Barbados in 2020, so its investment portfolio is no longer consolidated. Within its investment portfolio are positions of many of the common stocks listed in the common stock holdings table above. For example, RiverStone Barbados owns 9.7 million shares of Fairfax India that are not included in the 41.9 million shares of Fairfax India we show in the common stock holdings table (combining both would give us 51.6 million shares or 34.5% ownership). The same can be said for a number of other holdings such as Atlas, BlackBerry, Commercial International Bank and Recipe. As part of the sale of RiverStone Barbados to CVC, we have the opportunity to purchase these securities over the next two years, at December 31, 2019 prices."

"At our RiverStone run-off operations, led by Nick Bentley, while not recently active in U.S. run-off acquisitions (other than some small very successful captive insurance deals), the team has been very busy focusing on our U.S. legacy reserves, especially asbestos claims. Although we needed to strengthen reserves again in 2020 (about half of the previous year), the team continues to deliver significant value and savings from its dedicated focus and best in class experience – I can assure you these reserves are in good hands. As mentioned previously, late in 2020 we announced the sale of our remaining interest in RiverStone's European business to CVC Capital Partners. Luke Tanzer and his entire team at RiverStone Europe had a very busy year, closing five run-off deals. They are excited to continue to expand in the very active UK run-off market, and again, we wish them all the best going forward."

More information from Fairfax's 2020AR

Sale of RiverStone Barbados to CVC Capital Partners
"On December 2, 2020 the company entered into an agreement with CVC Capital Partners ("CVC") whereby CVC will acquire 100% of RiverStone (Barbados) Ltd. ("RiverStone Barbados"). OMERS, the pension plan for Ontario's municipal employees, will sell its 40.0% joint venture interest in RiverStone Barbados as part of the transaction. On closing the company expects to receive proceeds of approximately $730 for its 60.0% joint venture interest in RiverStone Barbados and a contingent value instrument for potential future proceeds of up to $235.7. Closing of the transaction is subject to various regulatory approvals and is expected to occur in the first quarter of 2021. Pursuant to the agreement with CVC, prior to closing the company entered into an arrangement with RiverStone Barbados to purchase (unless sold earlier) certain investments owned by RiverStone Barbados at a fixed price of approximately $1.2 billion prior to the end of 2022."

Contribution of European Run-off to a joint venture
"On March 31, 2020 the company contributed its wholly owned European run-off group ("European Run-off") to RiverStone (Barbados) Ltd. ("RiverStone Barbados"), a newly created joint venture entity, for cash proceeds of $599.5 and a 60.0% equity interest in RiverStone Barbados with a fair value of $605.0. OMERS, the pension plan for municipal employees in the province of Ontario, contemporaneously subscribed for a 40.0% equity interest for cash consideration of $599.5, based on the fair value of European Run-off at December 31, 2019 pursuant to a subscription agreement on December 20, 2019, and entered into a shareholders' agreement with the company to jointly direct the relevant activities of RiverStone Barbados. At closing on March 31, 2020, the company deconsolidated the assets and liabilities of European Run-off from assets held for sale and liabilities associated with assets held for sale on the consolidated balance sheet respectively, which included European Run-off's unrestricted cash and cash equivalents of $377.8, and commenced applying the equity method of accounting to its joint venture interest in RiverStone Barbados. The company recorded a pre-tax gain on deconsolidation of insurance subsidiary of $117.1 in the consolidated statement of earnings, comprised of a gain of $243.4 on the disposal of 40.0% of European Run-off and a gain of $35.6 on remeasurement to fair value at the closing date of the 60.0% of European Run-off retained, partially offset by foreign currency translation losses of $161.9 that were reclassified from accumulated other comprehensive income (loss) to the consolidated statement of earnings. The deconsolidation of European Run-off increased the company's non-controlling interests by $340.4 at March 31, 2020 as RiverStone Barbados holds investments in certain of the company's subsidiaries as described in note 16."

ICICI Lombard – 2017 to 2019 – A Strategic Pivot in India

July 10, 2024

ICICI Lombard provides many outstanding examples of what Fairfax does well as a company:

1. How strategic they are in their thinking. Back in 2001 who was thinking about investing in India? Fairfax was.
2. How long term they are in their thinking. This investment did very little (return wise) for the first 10 years of its existence.
3. The importance of picking the right partner. Fairfax nailed this by choosing to partner with ICICI Bank.
4. Having a decentralized structure. Fairfax was not actively involved in operating the company.

But we have an added and unexpected twist:

5. The ability to pivot strategically when the facts change.

What Fairfax accomplished with its P/C business in India over the past 7 years has been nothing short of epic. They completely disrupted what was a very successful situation/business model. Clayton Christensen (author of 'The Innovator's Dilemma') would be proud. In 2016/17, Fairfax abruptly changed the strategic direction of their P/C insurance business in India. And they were successful. They have created billions of dollars in shareholder value in the process. But more importantly, they have secured their future in the growing P/C insurance market in India. Given the growth that is expected from the Indian economy in the coming decades, that is a big, big deal.

What happened?

Beginning in 2017, Fairfax executed a brilliant strategic pivot - away from longtime partner ICICI Lombard and to startup Digit. This was a very strategic, calculated, rational, gutsy, high risk / high reward decision.

What was the financial impact?

From 2017 to 2019, Fairfax sold their entire 34.9% stake in ICICI Lombard for proceeds of about $1.6 billion. Between realized gains and share of profit of associates it looks to me like they generated a total return of about $1.3 billion pre-tax (I think minimal tax was paid due to the tax jurisdictions where the ICICI Lombard positions were held).

In 2017, Fairfax seeded Digit. At December 31, 2023, Fairfax's Digit position (49%) had a cost basis of $154 million and a fair value estimate of $2.265 billion = CAGR of 62%. In Q2-2024 Digit completed its IPO in India, so we should get a valuation update when Fairfax reports Q2 results.

The bottom line is Fairfax harvested gains of around $1.3 billion (from the sale of ICICI Lombard) and have generated additional gains of +$2 billion (in Digit). That is $3.3 billion in shareholder value

creation in the last 7.5 years. And they own a significant stake/control position in one of the fastest growing P/C insurers in India.

The timing of Fairfax's sale of ICICI Lombard is also important – 2017 and 2019. Total proceeds were $1.6 billion. Unlike today, this was a time when Fairfax needed the cash. Fairfax commented that some of the proceeds from the 2019 sale would be used to support the insurance subsidiaries grow in the hard market (that was just getting started). Bottom line, Fairfax was able to put the proceeds from the sale of ICICI Lombard to good use.

Why did Fairfax pivot from ICICI Lombard to Digit?

The facts changed.

Fairfax's partnership with ICICI Bank was the perfect fit from 2001 to 2016. But not in 2017. ICICI Bank wanted to take ICICI Lombard public - and they didn't want to reduce their ownership position to below 55%. To go public, at least 25% of the shares needed to be owned by retail investors/public. This meant Fairfax would have to reduce its ownership in ICICI Lombard from 34.9% to 20%.

Going public would reduce Fairfax's ownership in ICICI Lombard by 42%. Fairfax is a P/C insurance company. They were looking to expand their P/C insurance business/exposure in India - not reduce it significantly.

What was the solution?

Seed startup P/C insurer Digit - and partner with Kamesh Goyal. Importantly, Fairfax would have a control position in Digit – which is something they never had with ICICI Lombard.

This move would require Fairfax to reduce their ownership in ICICI Lombard to 9.9%. India does not want cross ownership of P/C insurance companies. If you own a large position in one, the max position you can have in a second is 9.9%.

A short history of Fairfax's investment in ICICI Lombard

Fairfax began its insurance journey in India in 2000. That was the year the government in India opened the property and casualty insurance industry to foreign investment. Fairfax partnered with ICICI Bank, a large private bank in India, and created a joint venture called ICICI-Lombard. Fairfax invested $10 million for an interest of 26% in the new venture, the maximum allowed by Indian law at the time.

ICICI-Lombard experienced rapid growth in the years that followed and by 2006, they had become the largest private general insurance company in India with a 12.5% market share. Over the years Fairfax made numerous capital infusions to support the growth of ICICI-Lombard and maintain their ownership at 26%.

In 2015, the Indian government allowed foreign ownership in insurance companies to increase to 49%. That year Fairfax purchased an additional stake of 9% in ICICI-Lombard from ICICI Bank for $234 million; this increased Fairfax's ownership in ICICI-Lombard to 34.9%.

Fairfax - A History of ICICI Lombard Transactions & Share of Profit of Associates

	Total Amount		Net Realized Gain	Share	Comments
	Cost	Proceeds			
2001					Minority partner with ICICI Bank
Dec 2011	$108			26.0%	Add to position
Oct 2015	$234			34.9%	Added 9% to position
Total	**$347**				**Cost of total investment to date**
July 6, 2017		$376.3	$223.3	22.0%	Sold 12.18% of position
Sept 19, 2017		$532.2	$372.3	9.9%	Sold 12.1% of position
			$334.5		9.9% reclassified to common stock
2019		$729.0	$311.2	0.0%	Sold 9.9% - all of remaining stake
Total		**$1,638**	**$1,241**		

Total Gain	**$1,291**

ICICI Lombard Share of Profit of Associates	
Year	**$**
2011	-$36.1
2012	$12.9
2013	$10.1
2014	$33.0
2015	$10.7
2016	$44.1
2017	$24.0
Total	**$98.7**

Comments from Prem on ICICI Lombard from Fairfax's 2017AR.

"ICICI Lombard is an Indian insurance company that we began in 2001 from scratch as a minority partner with ICICI Bank. Over the following 16 years, ICICI Lombard went on to become the largest non-government-owned property and casualty insurance company in India. Until fairly recently, our ownership interest was limited to 26% by government mandate. About three years ago, the government allowed the foreign ownership to go to 49%, which resulted in our going to 35% by buying 9% from ICICI Bank. Since then, given ICICI Lombard's intent to go public, ICICI Bank wanting to control ICICI Lombard with at least 55% ownership, and Indian law requiring that the public own at least 25% of a public company, our ownership would be reduced to a mere 20%. As property and casualty insurance is our core business and we are very optimistic about the growth prospects in India, and as Indian law does not permit an ownership of 10% or more in more than one insurance company, we agreed with ICICI Bank that we would reduce our interest in ICICI Lombard to below 10% so that we could start our own property and casualty company in India, Digit. ICICI Lombard is a great company led by an exceptional leader, Bhargav Dasgupta, and we wish them much success in the years to come. We have thoroughly enjoyed our partnership with ICICI Bank and its CEO Chanda Kochhar and we wish them also much success in the future."

"The reduction in our equity interest in ICICI Lombard from 35% to 9.9% resulted in cash proceeds of $909 million plus our continuing to own 45 million shares of ICICI Lombard worth $450 million at the IPO (now worth about $550 million) resulting in an after-tax gain of $930 million."

Comments from Prem on Digit from Fairfax's 2017AR.

"As I mentioned in the section on ICICI Lombard earlier, we are very excited to welcome Kamesh Goyal and his more than 240 employees at Digit to Fairfax. Kamesh built Bajaj Allianz from scratch to be the second largest non-government-owned P&C company in India and then spent a total of 17 years at Allianz, the last five years in Munich operating at the highest levels. He is building a digital property and casualty insurance company in India, which was created in December 2016 and has begun actively selling policies. We are very excited about the prospects of Digit."

From Fairfax's 2017AR.

On July 6, 2017 the company sold a 12.2% equity interest in ICICI Lombard General Insurance Company Limited ("ICICI Lombard") to private equity investors for net proceeds of $376.3 and a net realized investment gain of $223.3. On September 19, 2017 the company sold an additional 12.1% equity interest through participation in ICICI Lombard's initial public offering for net proceeds of $532.2 and a net realized investment gain of $372.3. The company's remaining 9.9% equity interest in ICICI Lombard was reclassified from the equity method of accounting to common stock at FVTPL, resulting in a $334.5 re-measurement gain.

Comments from Prem on the exit from the ICICI Lombard investment from Fairfax's 2019AR.

"We sold our last remaining position in ICICI Lombard in 2019 for $729 million. As I mentioned to you in our 2017 annual report, we helped build the largest private property and casualty company in India with our name, Lombard, very much continuing in the future. It has been a very profitable investment for us and we wish the management team, led by Bhargav Dasgupta, much success in the future."

From Fairfax's 2019AR.

"During 2019 the company sold its 9.9% equity interest in ICICI Lombard for gross proceeds of $729.0 and recognized a net gain on investment of $240.0 (realized gains of $311.2, of which $71.2 was recorded as unrealized gains in prior years), primarily related to the removal of the discount for lack of marketability previously applied by the company to the traded market price of its ICICI Lombard common stock."

First Capital – August 2017 – The Amazing Mr. Athappan

July 10, 2024

First Capital provides many outstanding examples of what Fairfax does well as a company. But three really stand out:

1. The incredible power of partnering with outstanding people – and letting time and compounding work its magic.
2. The benefit of being opportunistic – sometimes a buyer is willing to pay a truly obscene price for an asset.
3. International focus – In 2001 Fairfax seeded ICICI Lombard (India). In 2002 Fairfax seeded First Capital (Singapore). Both have become home run investments for Fairfax and its shareholders.

Summary of 2 of Fairfax's P/C Insurance Investments

	Initial			Gain - Rough Est		
	Investment	Cost	Proceeds	Pre-tax	After-tax	Comments
ICICI Lombard	2001	$347	$1,638	$1,291		Sold 2017 to 2019
First Capital	2002	$35	$1,700		$1,000	Sold 2017
Total		$382	$3,338			

In 2017, Fairfax sold First Capital for $1.7 billion and booked a $1 billion gain after-tax. The amount Fairfax received from this sale was a complete shocker at the time. First Capital was sold for more than 3 times book value. As part of the deal, Fairfax also established a strategic partnership with Mitsui Sumitomo, making a great deal even better.

At the time, First Capital was the largest P/C insurer based in Singapore. In 2016 it had shareholders' equity of $473 million and gross premiums written of $384 million. The CR was 86.4% and underwriting profit was $41 million.

Fairfax's initial (and only) investment in First Capital was $35 million in 2002. This investment had a CAGR of about 30% over a 15-year period. Wow!

The bottom line was Mitsui Sumitomo was willing to pay a king's ransom to become the largest P/C insurer in Singapore.

2017 was also a time when Fairfax was short on cash. Their investment portfolio was underperforming. And they were at the tail end of their aggressive international P/C insurance expansion - their $4.9 billion purchase of Allied World closed in July 2017. The sale of First Capital was announced in August of 2017.

Importantly, First Capital was sold at more than 3 times book value. Allied World was purchased at 1.3 times book value. Over the past 7 years, Allied World has become a wonderful acquisition for Fairfax.

What was First Capital such a big success story for Fairfax?

The amazing Mr. Athappan. Fairfax picked the right partner way back in 2002. Mr. (Ramaswamy) Athappan was an incredible leader/partner/entrepreneur. Not only did he build First Capital from scratch, he also has his fingerprints all over Fairfax's many insurance acquisitions in Southeast Asia over the past 15 years.

After the sale of First Capital, Mr. Athappan (and his son Gobi) continued to manage Fairfax's diverse collection of P/C insurance holdings in Southeast Asia. Of interest, the purchase of Singapore Re (the 72% Fairfax did not already own) for $103 million in 2021 is looking like it was timed perfectly, right before the onset of the hard market in reinsurance.

Unfortunately, Mr. Athappan passed away in May of 2024 at the age of 78. In June 2024, Mr. Athappan's son, Gobi, was appointed Chairman and CEO of Fairfax Asia. The Athappan gift keeps on giving to Fairfax and its shareholders. Fairfax Asia is a significant platform for Fairfax in a very important region that should continue to grow nicely in the coming years.

Mr. Athappan was one of the founding members of the $1 billion club at Fairfax - individuals who have built enormous value for Fairfax and its shareholders over the years.

Mr. Athappan's legacy: Fairfax Asia

Fairfax - Summary of Fairfax Asia			2023 - million			
July 5, 2024		Fairfax	Net		Shareholders'	Investment
	Country	Ownership	Premiums	CR	Equity	Portfolio
Falcon Insurance	Hong Kong	100%	$85	95%	119	$257
Falcon Thailand	Thailand	97%	$21	100%	30	$46
Pacific Insurance	Malaysia	85%	$83	101%	118	$200
AMAG Insurance	Indonesia	80%	$60	94%	183	$176
Fairfirst Insurance	Sri Lanka	78%	$18	101%	38	$47
Singapore Re	Singapore	100%	$146	87%	229	$422
Total			**$413**	**94%**	**$717**	**$1,148**

Link to Mitsui Sumitomo's presentation of acquisition of First Capital from August 2017.

https://www.ms-ad-hd.com/en/ir/ir_event/event/presentation/main/06/teaserItems1/00/linkList/0/link/20170824_info_e.pdf

Quote from Fairfax's press release on May 23, 2024.

> "Over the past 22 years, Mr. Athappan has been a driving force in developing Fairfax's insurance operations in Southeast Asia. He made invaluable contributions to the success of Fairfax and Fairfax Asia over these years through his leadership, mentorship and guidance. "Mr. Athappan was an exceptional leader with an incredible track record of success. He was a trusted and valued colleague, but most importantly, he was a very good friend of mine and many others here at Fairfax," said Prem Watsa, Chairman and Chief Executive Officer of Fairfax. "To his family members and loved ones, we send our deepest condolences on the loss of a very special person."
>
> *Fairfax press release May 23, 2024*

Comments from Prem about the sale of First Capital from Fairfax's 2017AR.

> "...Mr. Athappan has had an incredible record with us in building First Capital. We provided $35 million in 2002 to let him establish First Capital; 15 years later, with no additional capital having been added, he had grown First Capital to be the largest P&C company in Singapore and with the Mitsui Sumitomo deal, gave us back $1.7 billion. That's a compound rate of return of approximately 30% annually. A fantastic track record by Mr. Athappan!" *Fairfax 2017AR*

Prem explains why Fairfax agreed to sell First Capital.

> "For the past two years, Mr. Athappan has come to me saying that he had taken First Capital as far as he could in the commercial property and casualty business in Singapore and that he needed a partner like Mitsui with a brand name to build the personal lines business. I refused him twice as I really did not want to sell First Capital. His continued persistence, his position as the founder of the company, and the fact that he would continue to run Fairfax Asia and First Capital and we would have a 25% quota share in the business of First Capital going forward persuaded us, with unanimous support from our officers and directors, to form a global alliance with Mitsui Sumitomo Insurance Company and sell First Capital to them. We worked very closely with Matsumoto san, the Senior Executive Officer of International Business of Mitsui Sumitomo, and his team, and the partnership is going very well. Through our cooperation agreement with Mitsui Sumitomo, we have been working together on a number of fronts including opportunities on reinsurance, shared business and products and innovation to name a few. We are very excited to be a partner with Mitsui Sumitomo. Total proceeds from the sale of First Capital were $1.7 billion, resulting in an after-tax gain of $1.0 billion. I do want to emphasize that we agreed to this global alliance and sale only because of its truly unique circumstances and we do not see this being repeated! Our companies are not for sale, period!" *Fairfax 2017AR*

Large Asset Sales - Non-Insurance

- Sigma March 2025
- Stelco July 2024
- BlackBerry Debenture 2020 to 2024
- Resolute Forest Products July 2022
- Corporate Bonds 2021
- Equity Hedges/Shorts 2016 and 2020
- Bank of Ireland 2014 to 2017

Asset sales have been a very important part of Fairfax's capital allocation framework. When done well, capital allocation does two important things:

1. Delivers a solid return.
2. Improves the quality of the company.

Many of the non-insurance asset sales from over the past 8 years have been focused on the second objective: improving the quality of the company. This was necessary because Fairfax had a number of big issues that needed to be addressed:

- End of 2016 – exit the equity hedge position.
- End of 2020 – exit last short position.
- 2020 and 2024 – exit Blackberry debenture investment.
- 2022 – exit Resolute Forest Products investment.
- 2019 to today – exit Fairfax Africa/APR Energy investments.

Each of these sales 'fixed' a problem. What Fairfax has accomplished over the past 8 years has been impressive - Fairfax has been able to 'fix' pretty much all of its large legacy equity 'problems.' As a result, the quality of Fairfax's total equity portfolio today has never been better.

Moving forward, now that the large legacy problems have all been fixed, non-insurance asset sales will be focused on the first objective of capital allocation: earn/deliver a solid return:

- 2014 and 2017 – sale of Bank of Ireland
- 2024 – sale of Stelco

The recently announced sale of Stelco is giving shareholders a glimpse of what is likely coming in the future – large investment gains as Fairfax monetizes more of its equity holdings over time.

There is one final non-insurance asset sale we will review. This sale is a great example of the fixed income team at Fairfax playing offense and defense at the same time – this sale both delivered a solid return and protected Fairfax's balance sheet.

- 2021 – sale of corporate bonds

The non-insurance asset sales shows Fairfax's investment team executing at a very high level. And a shift from fixing problems to one of monetizing the investment gains that are building on Fairfax's balance sheet.

Poseidon: Fairfax's Latest Capital Allocation Home Run

March 11, 2026

Fairfax has been delivering a capital allocation master-class over the past five years.

That may sound like hyperbole. It is not.

All one has to do is look at the facts — at what management has actually done, not what the market says about it. The latest example arrived yesterday morning with Fairfax's partial sale of its Poseidon investment.

This is a significant transaction. Not only because of its immediate financial impact, but because of what it reveals about Fairfax's business model, its investment framework, and management's increasingly impressive record as capital allocators.

A Big Transaction in a Big Holding

Poseidon is Fairfax's third-largest equity holding.

At December 31, 2025, Fairfax carried its investment in Poseidon at approximately $2.0 billion, or $15.50 per share, while the position's market value was approximately $2.6 billion, or $20.00 per share. That meant excess of fair value over carrying value stood at roughly $600 million.

Yesterday, Fairfax announced that it had agreed to sell approximately 50% of its Poseidon position — 67.6 million shares— at $28.30 per share, for aggregate proceeds of approximately US$1.91 billion.

That sale price changes the picture dramatically. At $28.30 per share, Fairfax's full Poseidon stake is effectively being valued at approximately $3.7 billion. Compared to year-end 2025, that is an increase of roughly:

- $1.7 billion above carrying value
- $1.1 billion above market value

That is a very large uplift in value on one of Fairfax's largest holdings.

	Fairfax: Big Picture Impact of Partial Sale of Poseidon/Altas/Seaspan			
	March 10, 2026	**Shares (m)**	**Per Share**	**Total $ (m)**
A	Carrying Value at Dec 31, 2025	132	$15.50	$2,046
B	Old Market Value - Dec 31, 2025		$20.00	$2,640
C	New Market Value - March 10, 2026		$28.30	$3,736
C - A	**Increase in New MV over CV**			**$1,690**
C - B	**Increase in New MV over Old MV**			**$1,096**

How the Value Shows Up

What makes the transaction especially interesting is that it surfaces value in two different ways.

First, Fairfax will record a realized investment gain on the shares being sold. On the roughly half of the position that is being monetized, the company is expected to book an investment gain of approximately $866 million when the transaction closes in the second quarter.

Second, the sale price establishes a fresh market-based valuation benchmark for the half of the position Fairfax continues to own. After the sale, Fairfax will still retain an ownership interest of approximately 22.1% in Poseidon. Using the transaction price, the remaining common equity stake would have a market value of about $1.8 billion. Excess of fair value over carrying value on that remaining position rises to approximately $824 million, up from $600 million at year-end.

Put differently, this one transaction surfaces roughly $1.1 billion of additional value for Fairfax shareholders between the realized gain and the higher implied value of the continuing stake.

That is an outstanding result.

Fairfax has, in effect, managed to have its cake and eat it too: it has crystallized a very large gain while still retaining a significant ownership interest in the business.

Fairfax: Detailed Impact of Partial Sale of Poseidon/Altas/Seaspan

March 10 ,2026

Sold Position	**Shares (m)**	**Per Share**	**Total $ (m)**
Sale Price	67.6	$28.30	$1,914
Carrying Value		$15.50	$1,048
Realized Gain (Est Q2 close)			**$866**
Per Diluted FFH Share (pre tax)	22.5		$38

Remaining Position	**Shares (m)**	**Per Share**	**Total $ (m)**
Market Value	64.4	$28.30	$1,822
Carrying Value		$15.50	$998
Excess of New MV over CV			**$824**
Per Diluted FFH Share (pre tax)	22.5		$37

A Home Run, Made More Powerful by Size

The investment performance since inception is remarkable.

Fairfax first began investing in Seaspan in 2018. Over a period of roughly four years, it invested a little over $1 billion to build a position of approximately 132 million shares, representing

about 43% of the company. Very rough math suggests Fairfax paid about $7.90 per share on average.

Today's sale price is $28.30 per share.

That means an initial investment of roughly $1 billion has now become a position worth approximately $3.7 billion, before considering the dividends Fairfax has received along the way. Include those dividend payments and the total value created likely approaches $4 billion. On very rough math, Fairfax has generated close to $3 billion of profit from this investment over an eight-year period.

Yes, the percentage return is excellent — roughly 300%. But what makes the outcome truly exceptional is not simply the return. It is the size of the bet.

Back in 2018, Fairfax's common shareholders' equity was approximately $11.8 billion. A $1 billion investment was not a small side position. It was a major capital allocation decision. It was a high-conviction bet.

When describing what he learned from George Soros, Stanley Druckenmiller has said that what matters in investing is not simply whether you are right or wrong, but how much money you make when you are right and how much you lose when you are wrong. Poseidon is a textbook case. Fairfax was right — and the position was large enough to matter.

Fairfax's path to owning 130.8 million shares of Atlas

date granted	date exercised		shares	cost per share	cost total $	Comment
Feb-18	Jul-18	Warrants	38.46	$6.50	$250	
Jul-18	Mar-22	Warrants	25.0	$8.05	$201	Incentive to exercise warrants early
Jan-19	Jan-19	Warrants	38.46	$6.50	$250	
Nov-19	Nov-19	APR	22.9	$11.10	$254	
Apr-21	Jan-23	Warrants	5.0	$13.00	$65	Part of APR final?
Jun-21	Jan-23	Warrants	1.0	$13.71	$14	Incentive to exch debt for pref shares
			130.8	**$7.90**	**$1,034**	

Mr. Market Still Does Not Quite Get It

As is so often the case with Fairfax, the market's reaction was curiously muted.

Despite the scale of the transaction and the value it surfaces, Fairfax shares finished the day up only about 1%. That reaction suggests that many investors still do not fully grasp either the immediate financial implications or the broader significance of what management has accomplished.

This is not new. Fairfax has often monetized assets at attractive prices with surprisingly little market recognition (initially). One is reminded of the sale of the pet insurance business in 2022, which

generated a gain of roughly $1.2 billion - and the stock promptly sold off in the months that followed.

So, perhaps we should be thankful the stock didn't sell off again this time around?

Earnings Estimates Are Going Higher

This transaction also has a near-term consequence that should be obvious: analyst estimates for 2026 are likely headed higher.

Between the Poseidon sale and the recently announced sale of Eurolife's life insurance business, Fairfax is now set to book approximately $1.2 billion of investment gains in the second quarter alone:

- Poseidon: ~$866 million
- Eurolife life insurance business: ~$350 million

That is about $53 per diluted share pre-tax.

The amount is material, and it is not reflected in analyst models today.

Upward earnings revisions are likely coming.

More importantly, we are only about ten weeks into the year. There are still more than forty weeks to go. Fairfax may well surface additional value before 2026 is done. Against that backdrop, an earnings estimate of $190 to $200 per diluted share for 2026 is beginning to look conservative.

At a share price of roughly $1,685, Fairfax is trading at less than 9 times estimated earnings. For a company with Fairfax's collection of assets, balance sheet strength, management quality, and capital allocation track record, that remains a remarkably low valuation.

The Hidden Value Flywheel

For some time now, we have been making the case that Fairfax is carrying a very large amount of hidden value on its balance sheet. At year-end 2025, a conservative estimate placed this figure at more than $4.5 billion.

To some, that may have sounded overly optimistic.

Transactions like this are a useful reminder that hidden value is not imaginary. It is simply unrealized — until management chooses to realize part of it.

That is an important distinction.

The Poseidon sale did not create value out of thin air. It revealed value that had already been built inside the business and its investment portfolio. And importantly, this transaction only modestly reduces the broader reservoir of unrealized value that still resides within Fairfax.

That is why this matters so much. The sale of Poseidon is not just a one-off gain. It is evidence that Fairfax's hidden value flywheel is real and that it can become a meaningful source of future reported earnings over time.

Fairfax Sells Assets — That Is Part of the Model

One of the recurring mistakes made by investors analyzing Fairfax is to treat asset sales as unusual or non-recurring. They are neither.

Monetizing assets is a normal part of Fairfax's business model. It has been for decades.

Why does Fairfax sell assets?

First, to realize strong returns.

Second, to improve the quality of the company by recycling capital into new opportunities with superior prospective returns.

This is what good capital allocation looks like. It is not passive. It is not static. It is a continuous process of building value, harvesting value, and reallocating capital.

Will the gains be lumpy from quarter to quarter or year to year? Of course. But over a two- or three-year period, the pattern is much smoother and much easier to understand. Fairfax's investment gains should not be viewed as random windfalls. They are better understood as the periodic monetization of value that has been compounding quietly beneath the surface.

Poseidon is an excellent example.

New Information Matters

The other important thing this sale provides is information.

Fairfax has been steadily increasing the size of its private equity holdings. By definition, these positions are harder for outside investors to value with confidence. Public marks are limited. Accounting carrying values can understate economic value. As a result, many observers default to skepticism.

Asset sales help solve that problem. They create market-based reference points.

In this case, Fairfax sold approximately half its Poseidon position to three separate buyers, including one existing shareholder increasing its stake and two new strategic investors. It is reasonable to

conclude that these are informed counterparties and that $28.30 per share is a credible estimate of current fair market value.

That matters not just for Poseidon, but for how investors should think about Fairfax's broader portfolio of privately held assets.

"Bet on the Jockey"

Perhaps the most interesting aspect of the Poseidon investment is what it says about the evolution of Fairfax's investment framework.

My long-standing view is that Fairfax made an important adjustment around 2018. Management quality — the "jockey" — appears to have become an even more central part of the decision-making process. Poseidon was one of the earliest and clearest examples of this shift.

Fairfax invested in Seaspan because of David Sokol.

That was, at the time, a contrarian call. Sokol had once been viewed as Warren Buffett's heir apparent at Berkshire Hathaway. After the Lubrizol episode, however, he was clearly out of favor in many circles. Fairfax looked past the controversy and focused on the underlying record and capability of the operator.

That is classic contrarian investing: buy low, not only in securities, but sometimes in people's reputations.

It has worked out fabulously well.

Over the past eight years, David Sokol and CEO Bing Chen have done an outstanding job building the business. Fairfax's 2025 annual report makes this plain. Since 2017, the fleet has grown from 89 ships to 184, revenue has risen from $831 million to $2.5 billion, net income has increased from $175 million to $727 million, and earnings per share have climbed from $1.33 to $2.49 despite a much larger share count.

Those are not the results of financial engineering. They reflect real operating execution.

Fairfax's gain on Poseidon is, in the end, the direct consequence of partnering with capable people and backing them with meaningful capital.

2018 Was a Very Good Vintage

It is also worth noting that Poseidon was not the only example of this pattern.

In 2018, Fairfax also made a major investment in Stelco, partnering with Alan Kestenbaum — another clear "bet on the jockey." That investment, too, became a major success. Fairfax's

roughly $193 million initial investment ultimately delivered a total return of approximately $568 million, or about 294%, over six years.

Some of that capital was likely recycled into Orla Mining in late 2024, which itself has already become another highly successful Fairfax investment.

That sequence is worth studying. Fairfax identifies strong operators, invests at attractive valuations, supports them over time, monetizes when appropriate, and recycles the capital into the next above-average opportunity.

This is not accidental. It is a system.

Final Thought

The Poseidon sale tells us several things.

It tells us that Fairfax continues to uncover and monetize value in size. It tells us that the company's hidden value is real. It tells us that management understands how to recycle capital intelligently. And it tells us that Fairfax's growing emphasis on backing exceptional operators has produced excellent results.

Most importantly, it tells us that Fairfax is still being underestimated.

The market tends to focus on reported earnings in the next quarter. Fairfax is building value across a much longer time horizon. That difference in perspective continues to create opportunity for shareholders willing to do the work.

Poseidon is not just a successful investment.

It is a case study in how Fairfax compounds capital.

Foran – Using the Venture Capital Playbook in Mining

April 19, 2026

Introduction

Eldorado Gold completed its acquisition of Foran Mining on April 14, 2026. For Fairfax, this transaction marks the successful monetization of a high-conviction, multi-year investment.

The headline return is compelling. But the more instructive story lies in how that return was generated. To understand what happened, it helps to view the investment through two lenses:

1. Venture capital
2. The Lassonde Curve

Part I — The Outcome

Fairfax initiated its investment in Foran in August 2021 added to the position five additional times, deploying a total of $234 million.

At closing (April 14, 2026):

- Market value: ~$504 million
- Total gain: ~$270 million
- Return: ~115%
- Timeframe: ~3 years (weighted average)

This is an exceptional outcome—particularly for a capital-intensive, early-stage mining asset.

But focusing solely on the return obscures the more important point: the process that produced it.

Fairfax - Total Return on Investment in Foran Mining

April 14, 2026	Transaction	Shares		Total Cost		
	Date	million	Price C$	C$ m	US$ m	
Initial investment	Aug 2021	55.6	$1.80	$100	$80	
Exercised warrants	Oct 2022	16.0	$2.09	$33	$24	
Private Placement	Dec 2023	2.4	$4.10	$10	$7	
Private Placement	Aug 2024	10.3	$4.05	$42	$30	
Private Placement	Sept 2024	12.5	$4.05	$51	$37	
Private Placement	May 2025	25.0	$3.00	$75	$55	
Total Cost of Fairfax's Investment		**121.9**	**$2.55**	**$311**	**$234**	
Market value at April 14, 2026					$504	
Increase in market value					**$270**	**115%**

Part II — Framing the Investment

This was not a conventional public equity investment.

Foran had two defining characteristics:

- A venture-like profile (early-stage, capital-intensive, uncertain)
- Commodity exposure (inherently cyclical)

Equally important was Fairfax's partnership with Pierre Lassonde—the central figure behind the Lassonde Curve and a long-time architect of value creation in the mining industry.

Part III — The Lassonde Curve as a Roadmap

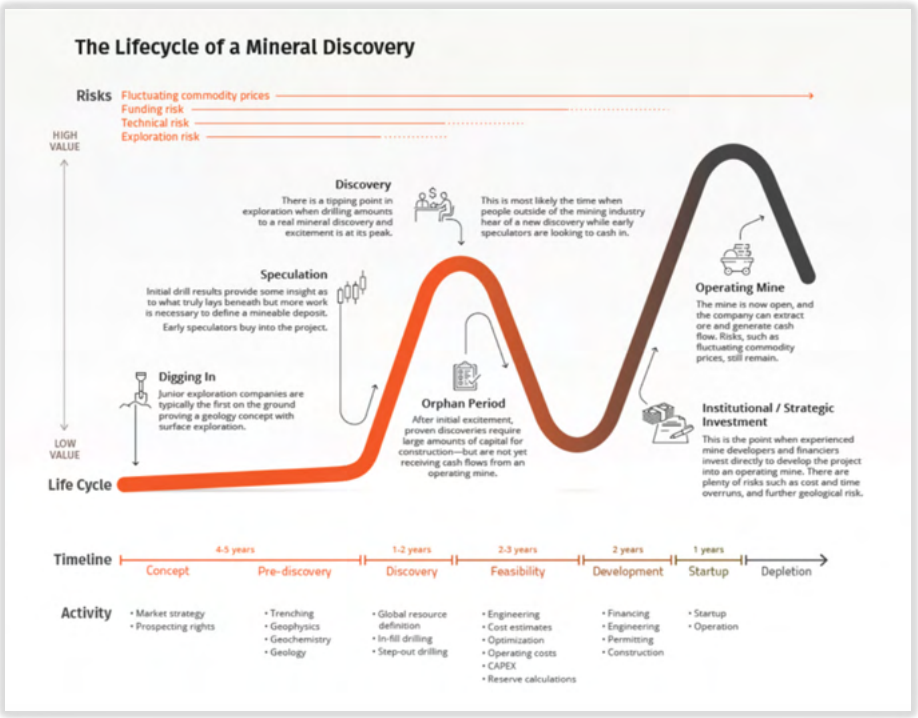
The Lassonde Curve describes how value typically evolves across a mining project's lifecycle:

- Discovery → excitement and rising valuations
- Feasibility → reality sets in; valuations compress
- Development → capital intensity peaks; valuations trough
- Production → cash flow emerges; valuations re-rate

The key insight: The most attractive risk-adjusted opportunities often appear in the middle—when uncertainty is highest and investor interest is lowest. This framework provides a roadmap for capital allocation.

Understanding the Mining Life Cycle - the Lassonde Curve

- https://smallcapinvestor.ca/the-lassonde-curve-understanding-the-mining-life-cycle/



Part IV — Entry: The "Orphan Period"

Fairfax began building its position in 2021, during the feasibility/development phase:

- The asset was proven but not yet built
- Capital requirements were significant
- Market sentiment was weak

This is the "orphan period":

- Maximum uncertainty
- Maximum capital intensity
- Minimal investor sponsorship

Fairfax leaned into this dislocation with a venture-style approach:

- Built a 22.6% ownership stake (121.9 million shares)
- Funded the project across multiple rounds
- Accepted illiquidity and volatility

Part V — Acting Like a Venture Capitalist

Fairfax's behavior closely resembled that of a lead venture investor:

- Provided growth capital through critical stages
- Absorbed development risk others avoided
- Positioned for a discrete value inflection

In mining, value creation is rarely linear.

The Lassonde Curve makes this explicit: a large portion of value is realized late in the development cycle—and often abruptly.

Part VI — Exit: Capturing the Re-Rating

The acquisition by Eldorado represents a classic inflection point:

- Major development risks were removed
- The asset became attractive to a strategic buyer
- Market value began to reflect underlying economics

Rather than waiting for full production, Fairfax exited at the re-rating phase—a textbook outcome.

Result:

- ~$234M invested
- ~$504M realized
- ~115% return

This aligns precisely with the Lassonde framework: a meaningful share of value is realized before production, once key uncertainties are resolved.

Part VII — Rolling Forward: From Asset to Platform

The transaction structure is equally important.

By received shares in Eldorado:

- Gains were effectively crystallized (tax-efficiently)
- Liquidity improved materially
- Risk profile declined
- Optionality increased

This mirrors a venture investor exiting into a strategic acquirer:

- From concentrated, high-risk exposure
- To ownership in a diversified, cash-flowing platform

The Bigger Picture

Foran is not an isolated case. It fits a broader pattern of successful commodity monetization by Fairfax in recent years:

- Resolute Forest Products (2022) – Sold at a premium valuation at peak of lumber cycle.
- Stelco (2024) – Sold at a premium valuation during strong M&A market in NA steel.
- Orla Mining (partial, 2025) – 25% stake sold at a +250% gain.
- Foran Mining (2026) – acquired by Eldorado Gold

Bottom Line

Viewed through the Lassonde Curve, this was a highly disciplined capital allocation exercise:

- Entered during peak pessimism
- Funded through the most capital-intensive phase
- Exited at the point of value recognition

The involvement of Pierre Lassonde is not incidental—it reinforces how closely the investment followed the framework he helped formalize.

This was not a passive investment in a mining company. It was:

- A venture-style deployment of capital
- Executed alongside experienced operators
- Guided by a clear roadmap of value creation
- Carried through with patience and discipline

Foran is another data point supporting a couple of broader conclusions:

Within its investment management business, Fairfax has quietly built another differentiated capability—operating at the intersection of venture capital, commodities, and long-term capital allocation.

More broadly, when it comes to capital allocation, Fairfax has been executing exceptionally well for more than 5 years now. Foran is just the latest example.

Sigma Companies International – March 2025 – Base Hits Matter

March 15, 2026

Value Investing in Practice

> "All intelligent investing is value investing — acquiring more that you are paying for. You must value the business in order to value the stock." *Charlie Munger*

The Sigma investment is a clear example of value investing in practice.

In 2017, Fairfax invested $41.4 million to acquire an 81% interest in Sigma Companies International Corp. For Fairfax, this was a relatively small investment.

Seven years later, Fairfax realized $327 million of total value:

- $284 million cash received
- $43 million retained ownership interest
- $178.7 million realized gain

The investment delivered a 31% compound annual return.

The formula is simple:

1. Buy a good business at a price well below its value.
2. Support strong management.
3. Be patient.

Value investing may be out of favour in many parts of today's market, but it continues to work exceptionally well for Fairfax.

Sigma is simply one of the latest examples.

In recent years Fairfax has also realized significant gains from investments such as Poseidon (2026), Orla Mining (2025), Stelco (2024), Ambridge Partners (2023), Resolute Forest Products (2022) and pet insurance (2022).

Corporate Baseball

Sigma highlights another important feature of Fairfax's investment approach.

The initial investment was small, but the outcome was meaningful.

Fairfax has produced several "home runs" in recent years — investments that generated over $1 billion in gains. But the company has also produced many "singles" — investments that created $100 million or more in value, like Sigma.

In baseball terms, Fairfax has been hitting for both power and average.

The home runs attract the headlines.

The singles quietly keep the scoreboard moving.

Importantly, Fairfax is not simply swinging for the fences. The company's investment process has evolved in recent years. It is making more consistent contact — generating a steady stream of profitable investments.

Each successful investment moves the runners around the bases.

Capital is redeployed into new opportunities, compounding over time.

In corporate baseball, that combination — consistently getting on base and power — is what wins championships.

Comments from Prem about Sigma from Fairfax's 2025AR.

> In 2017 we purchased an 81% interest in Sigma Companies International for $41 million. Led by Victor Pais, Sigma is a manufacturer and supplier of products used in water, stormwater and drainage infrastructure. Victor and team did an outstanding job navigating some turbulent times while at the same time building a great company. Early in 2025, Victor sold the company, with our interest being $284 million cash and a 16% ownership in the acquiring company worth $43 million for a 31% annual compound return. We wish Victor and the team all the best in the future.

Comments about Fairfax's initial investment in Sigma from Fairfax's 2017AR

> "On August 2, 2017 the company acquired an 81.2% non-voting equity interest in Sigma Companies International Corp. ("Sigma") for cash consideration of $41.4. Sigma, through its subsidiary, is engaged in global water and wastewater infrastructure projects." *Fairfax's 2017AR*

Stelco – July 2024 – Rock Star Alan Kestenbaum / Reaping the Rewards of 'New Fairfax'

November 7, 2024

With the closing of the sale of Stelco to Cleveland Cliffs on November 1, 2024, it is time to do a final long form post on this investment. Let's evaluate the performance of the management team at Fairfax. And see what else can we learn about Fairfax from this investment.

On July 15, 2024, Stelco announced that the company had been sold to Cleveland-Cliffs for about C$70/share (consisting of C$60.00 in cash and 0.454 of a share of Cleveland-Cliff common stock). Fairfax owned 13 million shares of Stelco. Total proceeds to Fairfax will be about US$639 million ($561 million in cash + $78 million in CLF shares). With the deal closing on November 1, 2024, Fairfax is expected to book an investment gain of $366 million (pre-tax).

How has Fairfax's investment in Stelco performed? (All amounts are in US$)

I know… I know… Show me the money!

In November 2018, Fairfax paid $193 million for 14.7% of Stelco (13 million shares at C$20.50/share). When Fairfax announced their Stelco purchase I hated it. At the time, it screamed 'old Fairfax' to me. Boy was I wrong.

Fairfax's return on its investment in Stelco has come from 3 sources:

- Gain on the increase in the value of Stelco shares …..…… $368 million
- Regular and special dividends paid by Stelco …….. $115 million
- Value of Cleveland Cliffs shares received as part of sale ……. $78 million

Over its 6-year holding period, Fairfax earned a total return of about US$568 million (+294%) on its $193 million investment in Stelco. The 6-year CAGR is 25.5%. That is an outstanding return. Bottom line, the team at Fairfax/Hamblin Watsa absolutely crushed their investment in Stelco.

Fairfax - Estimate of Total Return on Investment in Stelco					
November 4, 2024	**Transaction Date**	**Share Price C$**	**Total Value C$ mn**	**Total Value US$ mn**	
Initial investment in Stelco	Nov 2018	$20.50	$267	$193	
Sale price of Stelco shares	Nov 2024	$60.00	$780	$561	
Increase in market value since inception (Nov 2018)				**$368**	**191%**
Regular dividends received since 2018				$54	
Special dividends received since 2018				$68	
Cleveland Cliffs shares	13 x .454	5.9	$13.27	$78	
Total return on investment from inception (Nov 2018)				**$568**	**294%**
		6 year CAGR (US$)		**25.5%**	

What made Stelco such a good investment for Fairfax?

The CEO of Stelco, Alan Kestenbaum.

Since buying Stelco out of bankruptcy in 2017 (via Bedrock Industries) Kestenbaum's capital allocation decisions have been exceptional. Some examples:

- What did Stelco do with the earnings windfall from the historic bull market in steel in 2021 and 2022?
    - They bought back 38% of shares outstanding. And they did not overpay. That was freaking brilliant. As a result of the significant buybacks Fairfax's ownership in Stelco increased from 14.7% to 23.6% - with no new money invested.
    - A significant amount was paid out to shareholders over the past 6 years in dividends (regular and special dividends).
- Two other brilliant moves by Kestenbaum:
    - April 2020 - Minntac deal: at a cost of $100 million, Stelco got an 8-year supply agreement with US Steel with option to purchase 25% of Minntac (the largest iron ore mine in the US). Stelco struck this deal when Covid was raging - other CEO's were in capital preservation mode and Kestenbaum was thinking long term value creation. At Fairfax's annual general meeting in April 2023, Kestenbaum re-told the story of the incredible support he received from Prem/Fairfax in 2020 that allowed him to pull the trigger on this deal.
    - June 2022: Stelco sold their real estate holdings in Hamilton (the Stelco Lands) for C$518 million. The timing of this sale was brilliant - at what might be close to the peak of Canada's real estate bubble. And remember, Kestenbaum paid a total of about C$500 million for all of Stelco in 2017.
- And the final act? Selling the entire company for C$70.00 in July 2024.

Kestenbaum has been schooling the North American steel industry on capital allocation and building shareholder value for the past 7 years. In short, Kestenbaum has been a rock star - even Billy Idol would agree.

The incredible power of share buybacks (when done well)

Over a 2-year period Stelco reduced shares outstanding by 38%. What is interesting is Fairfax has also been very aggressive, reducing their shares outstanding by 20.1% over the past 6.75 years. As a result, Fairfax shareholders got a double benefit - and they saw their per share ownership interest in Stelco increase substantially over the past 6 years as a result of two large buybacks. Importantly, both Stelco and Fairfax bought back their shares at very low prices. The result is incredible value creation for long term shareholders of Fairfax.

Stelco Share Count	total shares	YOY change		2 year change	FFH %
Date	(millions)	shares	%	%	ownership
31-Dec-20	88.7				14.7%
31-Dec-21	77.3	-11.4	-13%		16.8%
31-Dec-22	55.1	-22.2	-29%	-38%	23.6%
Fairfax owns	13				

How does Kestenbaum's performance compare with Goncalves, CEO of Cleveland-Cliffs?

Many investors hold Lourenco Goncalves, CEO of Cleveland Cliffs, in high regard for his capital allocation skills. In November 2018, Cleveland Cliffs shares traded at about $10/share. Today CLF trades at about $13/share. Since 2018, CLF has paid dividends of $0.38/share. Over the past 6 years, a shareholder in CLF has earned a total CAGR of 5% per year.

Over the past 6 years, Kestenbaum has delivered to Stelco shareholders a CAGR of 25.5%. Kestenbaum's strategic vision, execution, results and timing have been exceptional. Much better than Goncalves (and that is an understatement). As a result, over the past 6 years, shareholders of Stelco have done much, much better than shareholders of Cleveland-Cliffs.

Reaping the rewards of the 'new Fairfax'

Stelco is a great example of what I like to call 'new Fairfax.' In about 2018, Fairfax (and the team at Hamblin Watsa) appeared to 'tweak' their value investing framework when it came to new equity purchases. As a result of these changes, Fairfax's new equity purchases made since 2018 have performed very well.

One of the important changes Fairfax made to their value investing framework was putting a much higher premium on partnering with great CEO/founders/owners. Stelco/Kestenbaum is a wonderful example of the incredible value creation that the changes made by Fairfax 6 years ago are now delivering to Fairfax shareholders. Importantly, Fairfax, via their many investments, is now partnered with many outstanding CEO's/leaders/founders and the quality (in terms of earnings power) and prospects of their $20 billion equity portfolio has never looked better.

Capital Allocation - Asset Sales

Asset sales are a very important and underappreciated part of Fairfax's capital allocation framework. It is something that separates Fairfax from both Berkshire Hathaway and Markel.

Why sell an asset?

Because someone values it much more than you do - and they are willing to pay you far more than it is worth.

Selling Assets at Nosebleed High Prices

Cleveland Cliffs paid consideration of C$70/share (cash and CLF shares) that was an 87% premium to Stelco's closing share price of C$37.36 on July 12, 2024, and a 37% premium to Stelco's 52-week high. In selling the company, Stelco (and Fairfax) were being highly opportunistic - they were able to take advantage of the consolidation fever that has gripped the North American steel industry in recent years.

Fairfax did something similar twice in 2022:

- Insurance: Sold their pet insurance business for $1.3 billion, booking a surprising $1 billion gain after-tax. Pet assets were in a bubble (driven by a race to consolidate). At the time, no one even knew Fairfax had a pet insurance business.
- Non-insurance: Sold Resolute Forest Products at the top of the lumber cycle for a premium price of $626 million (plus $183 in million contingent value rights). At the same time, the sale resulted in the disposal of a chronically underperforming asset - which improved the overall quality of their remaining equity portfolio.

As these three recent examples demonstrate, selling assets (insurance and non-insurance) can create significant value for long term shareholders. And improve the quality of the company.

Fairfax detractors

But talk to Fairfax detractors… my guess is they still view Fairfax's purchase of Stelco as a shitty investment. They explain it away with 'Fairfax got lucky.' After all, Stelco is a commodity producer! It cracks me up when I hear the detractors talk about Fairfax's equity holdings. They usually have no idea what they are talking about. But boy, do they ever have a lot of conviction when they express their views.

Below is a short review of some of the more important events in Stelco's life since Kestenbaum purchased the company out of bankruptcy in 2017.

In November of 2018, Fairfax invested US$193 million in Stelco, buying 13 million shares at C$20.50. At the time, it was a deeply contrarian purchase.

News release from Stelco announcing the company's sale to Cleveland-Cliffs

Cleveland-Cliffs to Acquire Stelco for C$70 per Share - July 15, 2024

https://investors.stelco.com/news/news-details/2024/Cleveland-Cliffs-to-Acquire-Stelco-for-C70-per-Share/default.aspx

HAMILTON, Ontario--(BUSINESS WIRE)-- Stelco Holdings Inc. (TSX: STLC) ("Stelco" or the "Company") is pleased to announce that it has entered into a definitive agreement (the "Arrangement Agreement") with Cleveland-Cliffs Inc. (NYSE: CLF) ("Cliffs"), pursuant to which Cliffs has agreed to acquire all of the issued and outstanding common shares of Stelco (the "Transaction") at a price of C$70.00 per share (the "Consideration"), consisting of C$60.00 in cash and 0.454 of a share of Cliffs common stock (equivalent to C$10.00 based on the closing price of Cliffs common stock on July 12, 2024) per Stelco share.

The total enterprise value pursuant to the Transaction is approximately C$3.4 billion. The Consideration represents an 87% premium to Stelco's closing share price of C$37.36 on July 12, 2024, and a 37% premium to Stelco's 52-week high.

Fairfax Financial Holdings, an affiliate of Lindsay Goldberg LLC, Alan Kestenbaum, and each of the other directors and executive officers of Stelco collectively holding approximately 45% of the current outstanding Stelco common shares have entered into support agreements to vote in favour of the Transaction, subject to customary exceptions.

Comments from Prem about Stelco from Fairfax's 2023AR.

In a year of volatile steel prices, Stelco performed well, highlighting its competitive cost structure. Stelco's talented team – led by Alan Kestenbaum, Sujit Sanyal, and Paul Scherzer – continues to be excellent stewards of the business with a keen focus on creating shareholder value. We believe that Stelco owns the best-in-class blast furnace assets in North America, which is highlighted by its industry leading margins. The company's Lake Erie Works facility has had recent upgrades to its blast furnace, coke battery, a newly constructed co-generation facility and a new pig iron caster. Nippon recently announced an agreement to acquire US Steel at a multiple of 7.8x 2024 EBITDA, a significant premium to Stelco's trading multiple. We believe the US Steel acquisition highlights the value of blast furnace operations. Stelco continues to have significant net cash on its balance sheet, providing management with flexibility to take advantage of both organic and inorganic growth opportunities. The company rewarded shareholders with a Cdn$3 per share special dividend in addition to its Cdn$1.68 per share regular dividend in 2023. Stelco has raised its regular dividend for 2024 to Cdn$2.00 per share. We believe Stelco has a bright future under Alan Kestenbaum's leadership. Stelco is carried on our books at $22.44 per share versus a market price of $37.84 per share." *Prem Watsa - Fairfax 2023AR*

Comments from Prem about Stelco from Fairfax's 2022AR.

"2022 was an active and successful year for Alan Kestenbaum and the talented team at Stelco. The company ended the year with its second-best fiscal result since going public despite an approximately 50% decline in steel prices over the summer. Stelco is benefiting from the Cdn$900 million it has invested in its Lake Erie Works mill since 2017, which has made the mill one of the lowest-cost operators in North America. Stelco entered 2022 with an extremely strong balance sheet and put its capital to good use, completing three substantial issuer bids during the year, thereby repurchasing approximately 29% of its outstanding shares. These repurchases have resulted in Fairfax's ownership increasing to 24% from 17% at the beginning of the year. In addition to share repurchases, Stelco paid a Cdn$3 per share special dividend and increased its regular dividend to Cdn$1.68 per share from Cdn$1.20 per share. Stelco maintains over Cdn$700 million of net cash on its balance sheet and we anticipate that it will continue to be active both investing in its operations and efficiently returning excess capital to shareholders. We are excited to continue as a significant investor in Alan Kestenbaum's leadership at Stelco." *Prem Watsa – Fairfax 2022AR*

Details of Stelco's Hamilton land sale in 2022, for proceeds of $518 million.

"Stelco Holdings Inc. (TSX: STLC) ("Stelco" or the "Company") announced today that its wholly-owned subsidiary, Stelco Inc., has successfully closed a sale-leaseback transaction with an affiliate of Slate Asset Management ("Slate"). Stelco Inc. has sold the entirety of its interest in the

approximately 800-acre parcel of land it occupies on the shores of Hamilton Harbour in Hamilton, Ontario to Slate for gross consideration of $518 million. In conjunction with the sale, Stelco Inc. has entered into a long-term lease arrangement for certain portions of the lands to continue its cokemaking and value-added steel finishing operations at its Hamilton Works site in Hamilton, Ontario."

https://www.thespec.com/news/hamilton-region/all-of-stelco-s-hamilton-land-sold-in-deal-that-would-see-it-transformed-into/article_17a333af-8198-5f97-9866-8c61ed8f799f.html?

Details of Stelco's agreement with US Steel in 2020 to securing long term supply for iron ore pellets.

Stelco Announces Option To Acquire 25% Interest In Minntac, The Largest Iron Ore Mine In The United States, And Entry Into Long-Term Extension Of Pellet Supply Agreement With U.S. Steel

"Stelco will pay US$100 million, in cash, to U.S. Steel in consideration for the Option (the "Initial Consideration"). The Initial Consideration is payable in five US$20 million installments, with the first installment paid upon closing of the Option Agreement and the remaining four installments payable every two months thereafter. Upon the exercise of the Option, Stelco would pay a net exercise price of US$500 million."

Transaction Highlights:
- Secures long-term future of Stelco's steel production and solidifies Stelco's low-cost advantage
- Provides supply of high-quality iron ore pellets from a well-understood and consistent source for the next eight years, or longer if the Option is exercised
- Increases annual pellet supply to level required for Stelco's higher production capacity following this year's blast furnace upgrade project
- Supports Stelco's tactical flexibility model to deliver highest margin outcomes based on prevailing market conditions
- Creates a secure pathway for Stelco to become a vertically integrated player in the future through ownership in a low-cost iron ore source which is the largest producing iron ore mine in the Mesabi iron range
- Structured in stages that will preserve Stelco's strong balance sheet and financial flexibility

https://investors.stelco.com/news/news-details/2020/Stelco-Announces-Option-to-Acquire-25-Interest-in-Minntac-the-Largest-Iron-Ore-Mine-in-the-United-States-and-Entry-into-Long-Term-Extension-of-Pellet-Supply-Agreement-with-U.S.-Steel-04-20-2020/default.aspx

Here is a little more information of Kestenbaum's initial investment in Stelco in 2017.

Purchase of Stelco out of bankruptcy: Bedrock gets steelmaker for less than $500 million

https://www.thespec.com/business/stelco-deal-bedrock-gets-steelmaker-for-less-than-500-million/article_da943b70-1a93-5a35-acb4-92a6da05946a.html?

BlackBerry Debenture – 2020 to 2024 – Exiting a Big Mistake

July 19, 2024

Blackberry has been one of Fairfax's great investing mistakes (that is putting it politely).

Fairfax began investing in BlackBerry in 2010 (it was called RIMM back then). By early 2014, Fairfax had invested a total of $1.287 billion.

As of July 2024, Fairfax has received proceeds of about $700 million (interest and exit of debenture position). The value of the common stock position in BlackBerry, which Fairfax continues to hold, is $113 million.

Bottom line, over the past 10 years Fairfax's investment in BlackBerry has fallen in value by $474 million. Of course the financial cost to Fairfax and its shareholders has been much higher - when you factor in opportunity cost.

Let's assume in early 2014 that instead of investing in BlackBerry, Fairfax instead invested $1.287 billion in another company. Let's assume that investment earned 8.5% per year (a modest hurdle rate). Today, that investment would be worth $2.9 billion. The 'swing' in value - what the BlackBerry investment is worth today ($813 million) versus what an alternative investment could have been worth ($2.9 billion) is $2.1 billion. That is a very rough approximation of how terrible the investment in BlackBerry has been for Fairfax.

But the cost to Fairfax of its investment in BlackBerry goes well beyond financial.

When you own such a large position is such a terrible investment the cost to the organization - in terms of resources and time - is likely enormous.

On February 15, Prem announced his resignation from the Board of BlackBerry after serving since November 2013. Prem is a busy man (as are other people at Fairfax). The time spend on BlackBerry over the years added no value for Fairfax and its shareholders (in aggregate) - actually it appears to have subtracted significant value.

Blackberry has also done significant repetitional damage to Fairfax - it was a high profile 10-year slow moving train wreck.

Bottom line, the cost to Fairfax - financial, time, reputation - has been significant.

Fairfax - History of Investment in Blackberry			
July 18, 2024		Total	
Date	**Details**	**US$ m**	
2010 to 2013	Initial investment stock	$787	$17.16/share
2013	Debenture	$500	
Early 2014	**Total investment**	**$1,287**	
2013 to 2024	Cumulative interest received	$200	
2020 to 2024	Debenture	$500	
2013 to 2024	**Total Proceeds**	**$700**	
Remaining investment in Blackberry			
July 18 2024	Common stock position	**$113**	46.7m x $2.42/share

Exiting a big mistake

The fact that Fairfax has been materially reducing its exposure to BlackBerry over the past 4 years is a big deal. And great news for shareholders.

In 3 separate transactions Fairfax has completely exited its $500 million debenture investment.

Fairfax - History of Investment in BlackBerry Debenture			
July 18, 2024		Amount	
Date		**US$**	**Comments**
Nov 2013	Initiate position	$500	Paid 6%; convertible at $10/share (50 million shares)
	Coupon decreased?		Paid 3.75%; convertible at $10/share
Sept 2020	Reduce position	$365	Paid 1.75%; convertible at $6/share (55 million shares)
Nov 2023	Reduce position	$150	Paid 1.75%; convertible at $6/share (25 million shares)
Feb 2024	Exit position	$0	

Fairfax continues to hold its common share position, which today has a market value of $113 million. This holding is a market to market holding for Fairfax (so the significant losses have already been reflected in the financial statements over the years).

Today, BlackBerry is Fairfax's #24 largest equity holding at 0.6% of the equity portfolio (of $20 billion). BlackBerry is now a tiny investment for Fairfax.

Fairfax shareholders can now put the BlackBerry investment behind them.

Mistakes

Mistakes are a fact of life when it comes to investing. What to do when you recognize you made one? Made sure you learn the lesson - so you do not repeat the mistake. And you probably exit the position and move on.

What was Fairfax's mistake with BlackBerry?

When Fairfax made their initial investment in BlackBerry in 2010, they completely misjudged:

- The quality of the management team in place.
- The prospects for the company.

Like with AbitibiBowater, when things got worse, they then:

- Significantly increased the size of their investment.
- Thought they were a turnaround shop - and could 'fix' BlackBerry.

I call this investing framework 'old Fairfax.'

Turning a lemon into lemonade

Value investing framework: Right around 2018, it looks to me like Fairfax made important changes to their value investing framework. I have recently written about this so I won't repeat myself. Bottom line, since 2018 Fairfax has been allocating capital exceptionally well.

Shifting capital from poor investments to better opportunities: Exiting the BlackBerry debenture investment has freed up $500 million in capital that has been re-invested into better opportunities where Fairfax should be able to earn a much higher rate of return. When Fairfax does this it is like they are creating a new, growing income stream.
Freeing up management's time: The senior team at Fairfax has also exited a big headache. They can now spend their time on much more productive endevours. That is also a big win for shareholders.

This move improves the overall quality and earnings power of the equity holdings. Over time this will result in more value creation for shareholders.

Fairfax detractors

They can't let go. Yes, Fairfax has made some big mistakes. BlackBerry was a big one.

But guess what... Fairfax has made many, many more great investments. And they appear to have stopped making big mistakes back in 2018. For the past 6.5 years, the team at Fairfax has been hitting the ball out of the park. At the same time they have been fixing ALL of the mistakes made in the past. Exiting the BlackBerry debenture is just one of many examples.

As a result of this (and other developments), Fairfax has been transformed as a company. But some investors still refuse to see it - their dislike of the company is still too intense. Crazy but true.

Comments from Prem from Fairfax's 2023AR:

"That brings me to a major mea culpa! We began investing in Blackberry in 2010 and helped John Chen become CEO in November 2013 by investing $500 million in a convertible debenture at the same time. Blackberry had come down from $148 per share (down 95%) and had $10 billion in sales. I joined the Board in 2013. Our total investment in BlackBerry early in 2014 was $1.375 billion ($500 million in the convertible and $787 million in common shares).

"When John joined the company, BlackBerry reported a loss of $1.0 billion – in one quarter and most analysts were predicting bankruptcy! BlackBerry was indeed in difficulty! John saved the company by quickly bringing it to breakeven on a cash basis and then on a net income basis. No CEO worked harder but, unfortunately, John could not make it grow! Revenues for the year ending February 2023 were $656 million. John retired from the company at the end of his contract on November 14, 2023 and I retired from the Board on February 15, 2024. We got our money back on our convertible ($167 million in 2020, $183 million in 2023 and $150 million in 2024) plus cumulative interest income of approximately $200 million. Our common stock position as of 2023 ($162 million or 8% of the company) which was acquired at a cost of $17.16 per share was valued on our balance sheet at $3.54 per share. Another horrendous investment by your Chairman. To make matters worse, imagine if we had invested it in the FAANG stocks! The opportunity cost to you our shareholder was huge! Please don't do the calculation! No technology investment for me!"

Prem Watsa - Fairfax 2023AR

Resolute Forest Products – July 2022 – Being Opportunistic and Exiting a Big Mistake

July 14, 2024

In July 2022, Fairfax sold Resolute Forest Products (RFP) to Paper Excellence Group (a global diversified manufacturer of pulp and specialty, printing, writing and packaging papers) for total consideration of $665.6 million ($20.50/share).

Fairfax accomplished 3 things with this sale:

- Got a great price for the asset - they sold it at the peak of the bull market in lumber.
- Were able to shift the proceeds/capital into much better investments/opportunities.
- Exited a big mistake - got one of their worst ever equity purchases off their books.

RFP was sold at $20.50/share. For perspective, back in March 2020, RFP shares traded as low as $1.20/share. Fairfax owned 30.5 million shares, so RFP's market cap in March of 2020 was a total of $37 million. Two short years later Fairfax sold it for total proceeds of $665.6 million. Wow! Pre-pandemic, RFP's shares traded at an average of about $6/share. In the historic lumber bull market

of 2021, RFP's shares traded at an average of about $12/share. Bottom line, at $20.50, Fairfax got an outstanding price for this company.

But price is just the beginning of why this was a great move for Fairfax and its shareholders. RFP also owned some pretty crappy businesses: newsprint, paper and tissue. And the 'good' business, lumber, was/is getting killed by higher interest rates. I think RFP also had a large pension liability on its books. Bottom line, Fairfax sold what was overall (still) a very challenged business.

The timing of the sale - in the middle of bear markets in both bonds and stocks - was also significant. It gave Fairfax the opportunity to redeploy the proceeds into opportunities with much better long-term prospects. This sale improved the quality/earnings potential of Fairfax's equity portfolio.

There is also the psychological benefit of Fairfax selling RFP. This shouldn't matter - but it does. AbitibiBowater/RFP was one of Fairfax's worst-ever equity investments. I am guessing there are lots of long-term shareholders of Fairfax who are very happy that Fairfax sold RFP. It is a great example of another one of the ghosts of 'old Fairfax' being laid to rest by the current team at 'new Fairfax'.

Fairfax - Summary of Proceeds from Sale of Resolute Forest Products

Shares	Proceeds		
Owned *	Per share	Total	Comments
30.548	$20.50	$622.2	Cash for shares
30.548	$1.42	$43.4	FV of contingent value right **
		$665.6	**Total consideration**

Shares owned * - includes AVLN shares (from RiverStone Europe sale)
Contingent value right ** - potential softwood duty deposit refund

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'Old Fairfax' - A short history of a terrible long-term investment

In 2008, Fairfax made an initial investment of $347 million in RFP (called AbitibiBowater back then).

What did they get?

Fairfax got a company - AbitibiBowater - that was:

1. Poorly managed.
2. Had a very stressed balance sheet (massive amount of debt).
3. Had a terrible core business/prospect (newsprint and paper).
4. Was statistically cheap - traded well below book value.

I like to call the investment framework used by Fairfax at the time as 'old Fairfax.' It appeared to be some kind of deep value investing - focussed pretty much exclusively on finding statistically cheap companies (trading at big discounts to book value).

What could possibly go wrong?

In 2010 AbitibiBowater filed for creditor protection.

What did Fairfax do?

They then decided they were a turnaround shop - and they pumped in even more money and time.

By 2012, Fairfax had 'invested' a total of $791 million in RFP (AbitibiBowater was renamed RFP in 2011).

Also buried in RFP's sad history was the smelly (putting it politely) take-out in 2012 of Fibrek (SFK Pulp).

Fairfax's carrying value for RFP bottomed out at $134 million in 2020.

To be fair, the management team at RFP had been doing a better job in recent years. The purchase of the three lumber mills in the US south in 2020 (at the bottom of the lumber cycle) was perfectly timed. Bottom line, the management team got RFP to a position where it was sold at a very high price.

RFP is a great example of what Fairfax's value investing framework USED TO LOOK LIKE. Not surprisingly, investments like RFP caused the returns on Fairfax's investment portfolio to lag for much of the decade from 2010 to 2020. And this caused Fairfax's stock price to underperform over the same time period.

Fairfax - A History of Resolute Forst Products Investment

	million	Comments
2008	$347	AbitibiBowater convertible bond
2009	$131	Prior to entering creditor protection
2012	$313	Dec 10 2010 to 2013
Total cost	**$791**	
	$76	Dividends received
Net cost	**$715**	
Proceeds	**$666**	From sale to Paper Excellence

Why was Abitibi-Bowater / RFP one of Fairfax's worst ever investments?

Opportunity cost.

From 2008 to 2012, Fairfax invested a total of $791 million in RFP/AbitibiBowater. 10 years later (2022), after dividends received and total proceeds of $665.6 from the sale, Fairfax was still underwater on its original investment.

The real 'cost' of Fairfax's investment in RFP was the opportunity cost. Over a 10-year period a $791 million investment should have returned more than $1 billion to Fairfax and its shareholders (if we assume a very low return of only 8.5% per year).

Was the problem with this investment that value investing in general was not working?

This reason/excuse drives me crazy.

Value investing has always worked. And it will likely always work in the future.

But bad investing (usually) does not work - especially if you keep doing it. You might get lucky for a while. But eventually reality sets in.

Buying a company that:

1. Is poorly managed.
2. Is highly leveraged.
3. Has poor prospects.

And then doubling down (money and time) when things go from bad to worse?

That is not value investing. That is bad investing. Sorry, there is no way to put lipstick on this pig.

What AbitibiBowater/RFP investment (fiasco) illustrates is Fairfax had a problem with its value investing framework. It was a problem because the terrible investments (back in the 2014-2017 period) did not just include AbitibiBowater/RFP. It was also BlackBerry. And Eurobank (the initial investment). And Sandridge Energy. And Exco Resources. And Fairfax Africa. And AGT Food Ingredients. And APR Energy. And Farmers Edge. Fairfax had too many dogs in its equity portfolio all at the same time.

To 'discover' the source of the problem - well, Fairfax needed to take a good hard look in the mirror. And that is what they did.

There is a silver lining to this story - The Emergence of 'New Fairfax'

From 2016 to 2017 it looks to me like Fairfax had its 'come to Jesus' moment with how it was managing its investment portfolio - Fairfax likely got tired of the investment portfolio's constant bleeding of money (hundreds of millions every single year). And the fact it was stuffed with a bunch of shitty companies - so its prospects were bleak.

In his shareholder letter in the 2018AR, Prem admitted that RFP had been 'a very poor investment.' It seems Fairfax's was ready to embark on a new course.

What did they do? Here is what I think happened (around 2018):

- Overhauled their value investing framework. Put a premium on:
    - Partnering with quality management/founders.
    - Strong balance sheet.
    - Solid prospects.
- Got to work dealing with all the shitty holdings.
- New money would go to the top opportunities/performers - not to the shitty companies in need of more cash to keep the lights on (like had been happening). Fairfax would no longer be a piggy bank for poorly run equity holdings.

Look at Fairfax's new equity purchases beginning in 2018. They have been stellar (as a group). And over the past 6 years they also have been able to clean up most of the shitty holdings. Selling RFP for $665.5 million in 2022 was a very important part of this renewal process. We will review a few other of the larger sales in future posts.

Over the past 7 years we have witnessed a remarkable turnaround in Fairfax's equity portfolio - it has improved markedly in terms of overall quality/earnings power. Fairfax's equity portfolio of today (2024) does not resemble the equity portfolio that existed in 2017. And in recent years, we have also started to see the impact of the turnaround in Fairfax's record reported results. Instead of bleeding money every year, Fairfax's equity holdings are now delivering solid returns. And the good news story is just getting started.

The Genesis of Fairfax's initial investment in AbitibiBowater in 2008

The 2 newspaper articles linked below provide some additional information on Fairfax's initial investment in AbitibiBowater in 2008.

It appears Paul Rivette was front and center with the AbitibiBowater investment for Fairfax. Paul 'retired' from Fairfax in February of 2020. Today, Paul is Executive Chair and Director of Greenfirst Forest Products - a forestry company that closely resembles an 'old Fairfax' type of investment.

From The Globe & Mail (April 2, 2008)

"It may be tiny by global mergers and acquisitions standards, but the life-saving $350-million (U.S.) investment by Fairfax Financial Holdings Ltd. in troubled AbitibiBowater Inc. is giving deal makers lots to chew on.

"For one thing, Fairfax's convertible debenture investment was crafted in three short days over the Easter weekend after Abitibi called late Thursday night to say the plan was the best offer it had on the table after weeks of negotiating with other unidentified suitors.

"Within two days we went from zero to a fully drafted deal," said Fairfax's chief legal officer Paul Rivett, who credits his former Shearman & Sterling LLP Toronto partners Chris Cummings and counsel Stephen Centa with closing the deal so quickly. Assisting the group was Torys LLP partner David Chaikof."

https://www.theglobeandmail.com/report-on-business/fairfax-abitibi-pact-sends-a-message-of-caution/article17983261/

From The Globe and Mail (March 14, 2008) - describing the initial transaction:

Fairfax gambles on better times at AbitibiBowater

https://www.theglobeandmail.com/report-on-business/fairfax-gambles-on-better-times-at-abitibibowater/article20383961/

Comments from Prem about Resolute Forest Products from Fairfax's 2022AR.

"In July 2022, Resolute agreed to be purchased by the Paper Excellence Group. The cash portion of the deal, $20.50 per share, represented a 64% premium to Resolute's pre-announcement price. Resolute's shareholders will also receive contingent value rights tied to potential duty deposit refunds of up to $500 million. Fairfax, which held 40% of Resolute, agreed to vote in favour of the deal."

"Paper Excellence's acquisition of Resolute closed on March 1, 2023. Our journey with Resolute began in a significant way in April 2008 with the purchase of approximately $350 million of an 8% AbitibiBowater convertible bond (at $10 per share) – almost 14 years ago! We added to our investment in Resolute in common shares and bonds over the years with a net investment after dividends of $715 million. With the interest income received on our bonds, sale proceeds of $622 million and with a little bit of good fortune on our remaining holdings in the contingent value rights, we may end up breaking even over this long holding period – although clearly a very poor long-term return. A big thank you to Remi Lalonde, Duncan Davies and Brad Martin for leading a strong turnaround in Resolute's results over the last few years." *Prem Watsa – Fairfax 2022AR*

Comments from Prem about Resolute Forest Products from Fairfax's 2018AR.

"We have invested $791 million in Resolute and received a special dividend of $46 million, for a net investment cost of $745 million. Our initial investment was a convertible bond purchased in 2008 for $347 million. We invested an additional $131 million prior to Resolute entering into creditor protection and most of the remainder during the period from December 2010 to 2013. Subsequent to write-downs and our share of profits and losses over time, at December 31, 2018 we held our 30.4 million Resolute shares in our books at $300 million ($9.87 per share). The current fair market value of these shares is $244 million ($8.03 per share). You can see that Resolute has been a very poor investment to date!" *Prem Watsa – Fairfax 2018AR*

For long term shareholders, here is a trip down memory lane for RFP. A link to historical milestones at the company from 2008 to present…

https://www.resolutefp.com/About_Us/Our_History/

Corporate Bonds – 2021 – Value Investing 101 / Protecting the Balance Sheet

July 18, 2024

Below is the next instalment in my review of asset sales at Fairfax from the past 7 years. My goal is to provide some additional insight into the transformation that has happened at Fairfax (especially earnings). And help us better understand what might be coming in the future. Please share your thoughts.

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To set the table, below is a prescient quote from Warren Buffett from his 2020 shareholder letter:

> "**And bonds are *no*t the place to be these days.** Can you believe that the income recently available from a 10-year U.S. Treasury bond – the yield was 0.93% at yearend – had fallen *94%* from the 15.8% yield available in September 1981? In certain large and important countries, such as Germany and Japan, investors earn a *negative* return on trillions of dollars of sovereign debt. **Fixed-income investors worldwide – whether pension funds, insurance companies or retirees – face a bleak future**." *Warren Buffett – Berkshire Hathaway 2020AR*

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In 2021, Fairfax sold $5.2 billion of corporate bonds and realized a $253 million gain. The bonds were sold at a yield of approximately 1%. Most of the bonds had been purchased in March/April of 2020 during the Covid panic which caused credit spreads (and yields) to spike temporarily.

The greatest bond bubble in history

2020 and 2021, bonds were in the blow off top (bubble high) part of the greatest bull market in history. Like .com stocks in 1999, bonds were selling at crazy high prices (well over their intrinsic value) - and their yields were at record low levels.

In 2020 and 2021, there was no 'margin of safety' when purchasing bonds, especially those of longer duration. Instead, there was actually a very high probability that future returns for investors would be terrible. **In 2020 and 2021 the risks of owning bonds had never been higher.**

Like past bubbles, when it came to bonds, Mr. Market had lost its mind.

Value investing 101

Value investing is the central framework used by Fairfax and is used in both of its core businesses: insurance and investments (equities and bonds).

What is a value investor to do when a historic bubble is blowing ever bigger? A value investor sells.

And that is what Fairfax did in 2021 when they sold $5.2 billion in corporate bonds. It was a brilliant move. And highly contrarian; especially for a P/C insurance company.

Protect the balance sheet

And they did another thing that was even better. They moved the average duration of their fixed income portfolio to 1.2 years (they had been doing this for years). They did this to protect their balance sheet - protect it from significant losses should bond yields unexpectedly rise.

Who else was thinking along the same lines as Fairfax?

Some guy named Warren Buffett who manages a company called Berkshire Hathaway.

What about other P/C insurance companies?

Most P/C insurance companies have a stated policy of matching the average duration of their fixed income portfolio with the average duration of their insurance liabilities.

This makes good sense - almost all of the time. But it is a terrible thing to do in an historic bond bubble.

So why did they continue to do it? Even when it was obviously becoming more and more risky?

The institutional imperative

What is the institutional imperative? Warren Buffett defines it in Berkshire Hathaway's 1990AR: "the tendency of executives to mindlessly imitate the behavior of their peers, no matter how foolish it may be to do so."

Pretty much all P/C insurance companies match the average duration of their bond portfolio with the average duration of their insurance liabilities.

What would be the consequences if this strategy blew up? There would be none - because they were all doing it. As a result they were all safe. Who could have known?

What happened to P/C insurance companies when the bond bubble popped in 2022?

When the bond bubble popped in 2022, the balance sheets of most P/C insurance companies got shredded - for many companies their book value fell 10% to 15% - for some it was more.

The management teams at most P/C insurance companies had completely dropped the ball. Their risk management had been terrible. They were reckless and their shareholders would now pay a steep price.

And what happened to the management teams? Nothing, of course. 'Who could have known' they all collectively said.

How about Fairfax?

Book value at Fairfax increased in 2022. Fairfax shielded their shareholders from billions in losses. That is outstanding risk management.

Narrative

Fairfax realized a nice gain of $253 million on their sale of $5.2 billion in corporate bonds in 2021. More importantly, by shortening the average duration of their fixed income portfolio to 1.2 years in late 2011, they protect their balance sheet - and shielded the company and investors from billions in losses. This is a great example of exceptional risk management.

This is just another of many recent examples of how Fairfax has been running circles around the management teams of other P/C insurance companies in recent years. Fairfax's growth in book value over the past 5 years has left peers in the dust.

It is a testament to the benefits of active management. And value investing. And superior management.

It is also an example of the benefit of having a majority/controlling shareholder. It's not a fluke that it was all the publicly traded P/C insurance companies that were blindly following the herd over the cliff in 2020 and 2021.

P/C Peer Comparison	Dec 31 2023	Dec 31 2018	Book Value Per Share		
			5 Year Change		Approx
	BV per Share		$	%	CAGR
Fairfax	$939.95	$432.46	$507.49	117%	16.8%
Markel	$1,095.95	$653.85	$442.10	68%	10.9%
Intact Financial (C$)	$81.72	$48.73	$32.99	68%	10.9%
WR Berkley	$29.06	$19.81	$9.25	47%	8.0%
Chubb	$146.83	$109.56	$37.27	34%	6.0%
Note: All companies pay a dividend except Markel.					

Interest income update

Interest income at Fairfax bottomed out at $568.4 million in 2021. When you add in the gain from the sale of $5.2 billion in corporate bonds, the total return on the fixed income portfolio was $821.4 million or 2.5% (calculated off the average size of $33.3 billion).

Given the exceptionally low average duration of of the fixed income portfolio of 1.2 years at Dec 31, 2021, the earn though over the past 2.5 years from spiking interest rates has been much quicker for Fairfax than pretty much all other P/C insurance companies.

As of Q1, 2024, interest income at Fairfax has ballooned to about $570 million **per quarter** and the yield on the fixed income portfolio ($46 billion in size) is now 5%. It is amazing what the fixed income team at Fairfax has accomplished over the past 3 years.

Fairfax: Estimating total return from fixed income portfolio in 2021			
July 18, 2024		2021	
		$ m	Avg Yield
Interest income		$568.4	1.71%
Realized gain on sale of $5.2b corporate bonds		$253.0	
Total Return from fixed income portfolio		**$821.4**	**2.5%**
	2020	**2021**	**Average**
Size of fixed income portfolio ($b)	$29.8	$36.8	$33.3

Comment from Prem from Fairfax's 2021 Annual Report

"During 2021, we sold $5.2 billion in corporate bonds, mainly acquired in March/April of 2020, at a yield of approximately 1%, for a gain of $253 million. At the end of 2021, our fixed income portfolio, inclusive of cash and short term treasuries, which effectively comprised 72% of our investment portfolio, had a very short duration of approximately 1.2 years and an average rating of AA-." *Fairfax 2021AR*

Equity Hedges/Shorts - 2016/2020 – Exiting a Colossal Mistake

August 12, 2024

When it comes to Fairfax topics, I sometimes have a different take than many other investors. The equity hedge/short investment is probably one such example.

Back in 2020, most investors had lost patience with Fairfax. The common thinking at the time was 'Fairfax had made so many bad investments they could no longer be trusted.'

But looking back, my read is Fairfax only made one really bad investment. And no, it was not Blackberry. Or Abitibi-Bowater. In the big scheme of things, those bad investments were small potatoes - something Fairfax could normally have navigated with relative ease.

My view is one investment caused most, if not all, of Fairfax's lost decade - and that was the equity hedge/short investment (yes, to help us put it into context, I am counting 'it' all as 'one'). The big mistake Fairfax made with this investment was the size and the duration of the position.

'Fix' one thing - the equity hedge/short investment - and guess what? You fix what was the root cause of Fairfax's underperformance for a decade.

But before we go any further, let's step back and do a quick review of this investment/position.

Why did Fairfax make this investment?

Back in 2010, Fairfax was deeply concerned that North America was about to experience a Japanese type of steep economic contraction/deflation. They felt they needed to protect their balance sheet. So in 2010, they put on equity hedges, shorts and even bought CPI linked hedges.

Fairfax felt strongly about the risks - so they went big with their position.

What happened? Not what they were deeply concerned about. In 2016, they removed the equity hedge. And in 2020 they removed their final short position.

But by then, the damage had been done.

What was the total cost of the equity hedge/short position?

From 2010 to 2020, Fairfax's equity hedge/short positions cost Fairfax a total of $5.4 billion in losses = an average of $494 million per year.

The equity hedge position was removed in late 2016. This position was the big issue. From 2010 to 2016, the equity hedge/short positions cost Fairfax a total of $4.4 billion in losses = $628 million per year.

The last short position was removed in late 2020. From 2017-2020, the short positions cost Fairfax a total of $1.04 billion = $261 million per year.

But the cost to Fairfax was not just financial - this 'investment' also shredded Fairfax's reputation as a competent investor. As a result, Mr. Market got irrationally pessimistic with the company.

What was the cost for investors?

The bottom line is 2010 to 2020 was a lost decade for Fairfax shareholders. Fairfax's stock traded over $400/share in late 2010. The stock traded under $300 for 4 months of 2020. Ouch! There is no way to put lipstick on this pig - the equity hedge/short position was a disaster.

What is the best way for an investor to think about the equity hedge/short position?

This is where the story gets interesting. And where my take is very different than most others.

I view this 'investment' as a one-time event. But the time was not one week. Or one month. Or even one year. It was an 11-year one time event (7 years if we only include the equity hedges). Now people probably think i have lost my marbles with my portrayal. But i think it fits as a way to think about what happened.

It's kind of like the salad oil scandal at American Express back in 1963. It cost AMEX and its customers something like $1.7 billion in today's dollars. Buffett recognized the issue as a 'one time' event - it was in the company's control to fix, and better yet, it had nothing to do with AMEX's core business. **The salad oil scandal gave Buffett the opportunity to pick up a wonderful franchise at a wonderful (very low) price.** And he backed up the truck.

Fairfax's 'issue' just played out over a much longer time period. And yes, it was terrible for shareholders. Here is the important part: Like the salad oil scandal at AMEX, Fairfax's 'issue:'

1. Was entirely self-inflicted. This means 'the fix' was entirely in their control. Eventually Fairfax did the right thing.
2. Did not impact their core P/C insurance business. This business grew substantially in size and quality from 2010 to 2020 and was ideally positioned to benefit from the P/C insurance hard market (which began in late 2019).

Fairfax eventually gets it right

In late 2016, Fairfax exited the biggest part of the bad investment - the equity hedge part - and this was a massive win for shareholders. In late 2020, Fairfax exited their last short position and this was a big win for shareholders.

The bottom line, at the start of 2021, the chains of the equity hedge/short positions had been completely removed from the company. **It was like a $494 million annual expense that the company paid from 2010 to 2020 had been suddenly eliminated and Fairfax had become $494 million 'more profitable' every year moving forward.**

Business fundamentals

The crazy thing is this 'investment' only stunted Fairfax's growth from 2010 to 2020. It really was amazing what Fairfax was able to still accomplish as a company from 2010 to 2020 - **especially the significant build out of their P/C insurance business**. They did many other very good things

'under the hood' - like the pivot in India in 2017 from ICICI Lombard to Digit, which has made shareholders billions. (The many shitty equity holdings on the books at the time was another headwind - making Fairfax's performance even more impressive.)

What this shows is the incredible earnings power that existed within Fairfax in late 2020 - that P/C insurance (float) + active management of the investment portfolio (equities etc).

Opportunity was knocking for investors

The equity hedge/short investment was a one-time solvable problem for Fairfax. And by late 2020 they had solved it. But investors had lost confidence in the company with the Covid driven sell off providing the final kick in the teeth. In 2020, sentiment in Fairfax hit rock bottom and Mr. Market punished the stock sending it far below its intrinsic value.

Sometimes a share price becomes far detached from the intrinsic value of the company - and that is clearly what happened with Fairfax in 2020. The crazy thing is this was also the exact time when Fairfax's prospects improved significantly - the $494 million annual expense that the company had been paying from 2010 to 2020 had just ended.

In 2020 qnd 2021, investors got the 'AMEX salad-oil scandal' equivalent buying opportunity of a lifetime - they got the opportunity to buy a quality company - Fairfax- at a crazy low price. (Given the improvements Fairfax has made to its equity portfolio since 2020, i would characterize Fairfax today as a high-quality company).

But it was hard for investors to see at the time. Fortunately, Sanjeev was paying attention - in October of 2020, he began pounding the table (on the board) on how cheap Fairfax's stock had become. A few of us were listening.

The benefit of failure

Many Fairfax detractors hold up the equity hedge/short investment as a reason not to invest in Fairfax ever again. 'Management cannot be trusted' they say.

I don't agree. Mistakes are going to be made in this business.

Has management admitted they made a colossal mistake? Yes.
Have they promised to never again short individual stocks or market indices? Yes.

Can they be trusted?
Looking at what Fairfax has done since 2018, yes, i think they can be trusted today - their decision making the past 6.5 years has been best in class among P/C insurance companies. That is a long enough time for me.

Do I closely monitor the situation?
Yes. If they make a very big decision that i really don't like (something that costs them +$500 million per year - for years) then i will adjust my thesis and perhaps my position size. But that is true for all my investments.

Does making the equity hedge/short 'investment' make Fairfax a stronger company today?

Clearly, Fairfax had an issue with its value investing framework. These appear to have been addressed.

Fairfax has learned a few very important lessons from this experience. And I believe that makes them a stronger more resilient company today.

Cumulative Losses
from Equity Hedges / Short Positions

	Equity Hedges	CPI Linked Hedge	total	
2010	-$937	$28	-$909	equity hedges
2011	$414	-$234	$180	equity hedges
2012	-$1,006	-$129	-$1,135	equity hedges
2013	-$1,982	-$127	-$2,109	equity hedges
2014	-$195	$18	-$177	equity hedges
2015	$502	$36	$538	euity hedges
2016	-$1,192	-$196	-$1,388	equity hedges/shorts
2017	-$418	-$71	-$489	short exposure
2018	-$38	$0	-$38	short exposure
2019	-$58	$0	-$58	short exposure
2020	-$529	$0	-$529	short exposure
Total 2010-2016	**-$4,396**			
avg 2010-2016	-$628			
Total 2010-2020	**-$5,438**	**-$676**	**-$5,585**	
avg 2010-2020	-$494	-$61	-$508	

Equity hedge exited late 2016; final short position exited late 2020.

Bank of Ireland – 2014 to 2017 – Value Investing 101

July 12, 2024

Bank of Ireland – 2014 to 2017 – Value Investing 101

Over the next week my plan is to continue reviewing a number of Fairfax's asset sales - this time from the investment management side of the business. We will start with Bank of Ireland. We will also review the following 'sales': Equity hedges/shorts (2016/2020), Fairfax Africa (2020), Corporate bonds (2021), Resolute Forest Products (2022), Blackberry Debentures (2020/2024).

What do you see with most of these sales? **Fairfax fixing their biggest problems**. But I am getting ahead of myself.

My goal with reviewing the sales in detail is to provide some additional insights - that should provide a little more colour into the transformation that has happened at Fairfax (especially earnings). And help us better understand what might be coming in the future. Please share your thoughts / insights.

Value investing is at the core of how Fairfax/Hamblin Watsa manage their investments. Fairfax's investment in Bank of Ireland provides a great 'how-to-do' example of value investing.

Ben Graham, the father of value investing, taught that stocks should be purchased when they trade at a large discount to their intrinsic value. Buying stocks with a large 'margin of safety' provides an investor with downside protection (should they be wrong) and significant upside potential (should they be right). Stocks trading at a large margin of safety are usually deeply out of favour.

And Graham also taught that stocks should be sold when they are 'dear' or trade at a premium to their intrinsic value. Rinse and repeat.

One of Fairfax's great investments made in the decade of the 2010s was Bank of Ireland.

In October 2011, Fairfax invested €280 million ($387) for an 8.7% stake in Bank of Ireland. Fairfax exited their position in 4 sales made in 2014, 2015, 2016 and 2017.

<u>How did they do?</u>

My estimate is Fairfax realized a total gain on this investment of about $800 million, or about 200%. That is an outstanding return over a 6-year period (with 1/3 of the position exited in year 3 and another 1/3 exited in year 4).

My final number (gain) is an estimate. Fairfax provided us with an update in March of 2017 (the 2016AR). My guess is they sold their remaining position in 2017 at close to where Eurobank was

marked when they provided their update. It is interesting that Fairfax never provided a final summary for this investment in the 2017AR.

Value Investing 101

Maximum pessimism is often a great time to buy out of favour and undervalued stocks. Buying an Irish bank shortly after the biggest real estate bubble in history popped was a deeply contrarian thing to do. In 2011, when Fairfax made its investment, Bank of Ireland was trading at a significant discount to book value.

Concentration

When they find the right opportunity, Fairfax is not afraid to concentrate their position. At the time, Bank of Ireland was a large investment for Fairfax (common shareholders' equity was $7.4 billion at Dec 31, 2011).

Bottom line, Bank of Ireland is a great example of value investing done well by the team at Fairfax.

Some additional thoughts: the power of relationships/connections and deal flow

- The idea to invest in Bank of Ireland came from Bill McMorrow at Kennedy Wilson.
- The initial investment was made with big partners: Wilbur Ross, Mark Denning (Capital Research) and Will Danoff (Fidelity).
- After stepping down as CEO of Bank of Ireland in 2016, Ritchie Boucher worked as an advisor to Fairfax, Eurobank and Kennedy Wilson.

Fairfax - A History of Bank of Ireland Investment						Cumulative Gain (Realized and Unrealized)			
		Shares	Value	Cost	Proceeds				
		million	/Share	million				Stake	Comments
Initial purchase	Oct 11, 2011	2,800	€ 0.10	€ 280		€ 280	$387	8.7%	Cost
Sale #1	March 2014	930	€ 0.33		€ 307			2.9%	
	Balance	**1,870**						**5.8%**	
Sale #2	March 2015	935	€ 0.36		€ 337			2.9%	
	Balance	**935**						**2.9%**	
Sale #3	Dec 2016	415	€ 0.23		€ 95			1.4%	
	Balance	**520**	**€ 0.21**			**€ 566**	**$806**	**1.5%**	2016AR
Sale #4 (Est)	2017	520	€ 0.21		€ 107				
Final Total (Estimated)		**0**		**€ 280**	**€ 846**	**€ 566**	**$806**	**0.0%**	
						202%			

Comments from Prem in Fairfax's 2011 Annual Report

"And there is more to the McMorrow story. While Bill was negotiating the purchase of some real estate loans from Bank of Ireland, he was really impressed with Ritchie Boucher, the Bank's CEO. Bill introduced Ritchie to us, and we too were very impressed. With the help of our friends at Canadian Western Bank, one of the best banks in Canada, we thoroughly reviewed the opportunity and then quickly formed an investment group with Wilbur Ross, Mark Denning from Capital Research and Will Danoff at Fidelity, which purchased $1.6 billion of Bank of Ireland shares on a rights issue (**Fairfax's share was $387 million**). This issue reduced the Irish government's stake in Bank of Ireland from 36% to 15%. In spite of having hundreds of years of history and the strongest credit culture in the country, Bank of Ireland barely survived the real estate crisis in Ireland, where both house prices and commercial real estate prices dropped by approximately 50% from their highs. It is the only major Irish bank to survive that crisis – the rest of the Irish banking industry is now government owned. The rights issue plus other capital generated by Bank of Ireland has resulted in the Bank having capital to withstand an even further drop in Irish commercial real estate prices and Irish house prices. Bank of Ireland is very strongly capitalized, led by an excellent banker, Ritchie Boucher, and its shares were available at a significant discount to book value. We look forward to being long term shareholders of Bank of Ireland and hope to make more investments in that country as it continues under strong leadership diligently remedying its economic problems. Ireland by the way is a leading location of choice for foreign direct investment because of its talent, tax regime and technology capabilities together with its unique pro-business environment. Our nSpire Re subsidiary has been in Dublin since 1990 and was a great help in making our decision to invest in Bank of Ireland." *Prem Watsa - Fairfax 2011AR*

Comments from Prem in Fairfax's 2013 Annual Report

"It is amazing to witness the transformation that has taken place in Ireland. In 2011, when we made our investment in the Bank of Ireland at €0.10 per share, 10-year Government of Ireland rates were 12%, housing prices had come down 40% and sentiment was bleak. Since then, 10-year Government of Ireland rates have dropped to 3.1%, house prices have bottomed out and have begun to rise, Ireland has access to the bond markets again and capital is flooding into Ireland! Under Richie Boucher's strong leadership, the Bank of Ireland continues to do well as it recently refinanced its government-owned €1.8 billion preferred by doing a €580 million equity issue at €0.26 per share and selling the rest into the marketplace. Also, it did a €750 million unsecured five-year bond financing at 3.34%! The Irish Government has now had all its loans to the Bank of Ireland paid back and its 13.95% ownership of the common stock is in a sizeable profit position. We thank the Irish Government for its exceptional support of the Bank of Ireland and look forward to the Bank's continued progress under Richie's leadership.

"As this letter went to print, because of the significant appreciation in our position in the Bank of Ireland, we rebalanced that position by selling a third of it at approximately €0.33 per share. The Bank of Ireland has been one of our most successful investments because of the outstanding performance of Richie and his management team. We continue to be strong supporters of Richie and the Bank of Ireland." *Fairfax 2013AR*

Comments from Prem in Fairfax's 2016 Annual Report

"Richie Boucher at the Bank of Ireland had another outstanding year in 2016 as the Bank earned €793 million. In 2016, the Bank continued to improve: non-performing loans fell by €4.1 billion (34%); pre-tax profit exceeded €1 billion for the second straight year; the pension deficit narrowed to €0.45 billion (from €1.19 billion); the CET1 ratio improved from 12.9% to 14.2%; and the Bank was number one or number two in every major product line in Ireland. Bank of Ireland is on firm footing and is poised to benefit from Ireland's recovering economy – estimated GDP growth in 2016 was 5.2% and unemployment is projected to fall to 6.8% in 2017."

"**We purchased 2.8 billion shares of Bank of Ireland stock in late 2011 at €0.10 per share. As of today, we have sold 85% of our position at €0.32 per share, for a total realized and unrealized gain of approximately $806 million.** Richie has produced outstanding results for us and we are fortunate that he consented to join the Eurobank Board. Bank of Ireland is expected to announce its first dividend in the last eight years in 2017!" *Fairfax 2016AR*

Chapter 20: Annual Top 10 Lists

A Seven-Year Record of Fairfax's Transformation (2019-2025)

Beginning in 2019, at the end of each year, I have compiled a "Top 10" list of the most important developments at Fairfax – both positive and negative. Read together, these annual lists provide a compelling seven-year, chronological record of Fairfax's evolution as a company.

As early as 2019, it was already clear that important improvements were taking place *under the hood.* While results had yet to fully reflect these changes, the foundations for a better Fairfax were being laid.

Then came 2020.

Covid was a gut punch—for Fairfax and for its shareholders. The pandemic hit both of Fairfax's core businesses, insurance and investments, very hard. Sentiment collapsed to what was likely an all-time low. Many long-term shareholders capitulated and sold their stock.

In hindsight, however, Covid proved to be a temporary setback, not a permanent impairment of the business.

2021 marked the beginning of the recovery. Both insurance and investments rebounded meaningfully, and Fairfax's earnings power began to re-emerge.

In 2022, financial markets delivered another major test. Equity markets entered a bear market, and bonds experienced a *historic* bear market. Despite this, Fairfax's operating earnings were clearly inflecting higher. The improvements put in place since roughly 2018 were finally showing up in the underlying economics of the business.

But the improvements delivered in 2022 were masked in the top-line reported earnings for the company – due to the large losses inflicted by the bear market in bonds (unlike most other P/C insurers, Fairfax's fixed income portfolio is mark to market). So many investors missed the fact that operating earnings were inflecting higher.

That changed decisively in 2023.

Operating earnings continued their upward march and reached levels that surprised even Fairfax itself. More importantly, this higher level of earnings appeared durable and sustainable. By this point, Fairfax had been fundamentally transformed as a company.

The period from 2020 to 2023 was one of extreme market volatility:

- Two bear markets in equities
- One historic bear market in bonds

Against this backdrop, Fairfax's management team put on an absolute clinic in capital allocation. Active management and value investing were not only relevant again—they were highly effective.

Today, Fairfax's two economic engines—insurance and investments—have never been better positioned. Operating earnings now drive the vast majority of the company's results, a sharp contrast to earlier periods when investment gains (and losses) dominated reported earnings.

In short, Fairfax has undergone a remarkable transformation over the past seven years. The posts below highlight many of the key milestones in what can only be described as an improbable renaissance.

Note: the posts referenced below were written in late December or early January. As a result, they do not include developments that were communicated when Fairfax released its year-end results in mid-February.

2019 Top 10 List: The Supertanker is Turning

Dec 28, 2019

Fairfax has had a very active 2019. For fun, I decided to try and come up with a 2019 'Top 10' list of events driving value for shareholders. Some events were driven by Fairfax (corporate/subsidiaries) and some were driven by management teams in the stock/equities held. On balance, it is clear to me that Fairfax has done many things to build a more valuable company for shareholders over the past year. As a result, the Fairfax 'super tanker' is slowly turning to the benefit of shareholders.

Here is a summary of the types of items impacting shareholder value:

- Being positioned to capitalize on hard market at insurance subs
- Solid growth in interest and dividend income
- Seeding new/newer investments: Seaspan (tranche 2)
- Monetizing mature investments: sales of ICICI Lombard and 40% of Riverstone UK.
- Merging investments to make the whole stronger: Eurobank/Grivalia
- Selling investment to put it in a better position to thrive: APR Energy
- Simplifying corporate structure to better enable companies to succeed: demerger of Thomas Cook and Quess and split of IIFL into three: Finance, Securities and Wealth

1.) Ongoing: emergence of hard market in insurance: leading to double digit growth in net premiums written at many of the subs. Looks like double digit growth should continue in 2020.

2.) Ongoing: Solid increase in interest and dividend income: while short of Fairfax's goal of $1 billion, looks to be close to $900 million for 2019, versus $784 in 2018 and $559 in 2017.

- January: Seaspan: tranche 2 of $250m debt at 5.5% = $14m in interest income/year

3.) January - Seaspan: Fairfax's additional $250 million investment = 37 million shares purchased at cost of $6.75; with shares currently trading at $14.25 paper gain = $278 million.

- 25 million additional warrants exercisable at $8.10 = paper gain of $154 million

4.) Eurobank: stock closed at €0.54 on Dec 31, 2018. Today the stock is at €0.92; paper gain = US $400 million. Eurobank looks well positioned.

- April: merger with Grivalia improved the balance sheet.
- April: Cairo Securitization - plan to hive off €7.5 billion chunk of underperforming assets is now almost complete (target Q1 2020).
- July: election of pro-business government in Greece with clear majority in parliament. Lowered corporate tax rate.

5.) Sept/Oct: ICICI Lombard sales: of remaining 10% position for proceeds of US $729 million; recorded a net gain on investments of $240 million in 2019 (there was more in previous years).

6.) December: OMERS paid US$560 million for 40% of Riverstone UK, which gives it a total value of $1.4 billion. Will increase BV by $10/share.

7.) Fairfax India: book value is up significantly in 2019 (+$3/share). BIAL looks like a jewel of an investment that will grow at double digit rate for years to come.

- Dec 16 - Bangalore International Airport (BIAL): Fairfax India to sell an 11.5% interest in Anchorage Infrastructure (holds airport investments) for gross proceeds of 9.5 billion Indian rupees ($134-million). Fairfax India's ownership of BIAL will fall from 54% to 49%. As a result of the transaction, Fairfax India will record investment gains of approximately $506 million, an increase in book value per share of $3.30 per share. The investment gains are supported by positive operational developments at BIAL. For the 12-month period ending October 2019, total traffic at BIAL was approximately 33.7 million passengers. The second runway commenced operations in December 2019. The expansion project for a second terminal at BIAL is expected to be completed in 2021.

- Dec 23 - Sanmar Chemicals Group: completed its announced transaction with Fairfax India. During the period since announcing the transaction in the third quarter of 2018 through September 30, 2019, Fairfax India recorded investment gains from the Sanmar common shares and bonds of approximately $210 million and $100 million, respectively.

8.) November: Sale of APR Energy to Seaspan: moved an underperforming unit into a better situation; obtained Seaspan shares is return.

- APR Energy: US $300 mill / $11.10 per share = 27m shares of Seaspan
- Seaspan: $14 (share price today) - $11.10 (cost) = $2.90 x 27m shares = $78 million gain

Under-performers:

9.) Recipe. Shares fell from CAN $26.19 to about $19.50 = $180 million paper loss. Hard to see this turning around any time soon. Restaurant stocks in Canada have been crushed this year. Most provinces are increasing minimum wages aggressively and will be doing so in the coming years as well, which is a negative for the hospitality industry. The good news is the assets are quality and have value; at $19.50 they look cheap.

10.) Blackberry: shares fell from US $11.17 to about $6.50 = $220 million paper loss (double if you include convertible shares they own). The purchase of Cylance has not resulted in the growth expected. Most recent quarter results were ok. If they can get the Cylance unit growing the shares should do well. 2020 will be very interesting to watch.

11.) Resolute Forest Products: shares fell from US $7.93 to about $4 = $120 million paper loss. In December purchased 3 sawmills in US South for $150 million; should new home construction in US pick up in 2020 this could become a solid acquisition for RFP.

Not sure what to think.

12.) AGT take-private

More work needed (by me to understand the businesses):

13.) Indian Investment: Quess, Thomas Cook, IIFL Finance - Securities – Wealth

- there was a lot happening with these investments in 2019. Thomas Cook demerged its Quess stake and IIFL split into three. This made it difficult to follow. The good news is these five firms are now independent with easy-to-understand share structures; we know how much Fairfax owns of each. And it will be much easier to monitor and understand what is happening moving forward.

Quess: Amazon investment suggests Quess is undervalued. Quess also looks like another jewel of an investment set to grow at double digits for many years to come.

- July - Amazon invested US$ 7.43 million for a 0.51% stake in Quess (money went to fund growth of Qdigit unit); they paid INR 676/share and market price at the time was INR 430 (they paid a 50% premium).
- December: Thomas Cook India demerged their 50% holding in Quess Corp in order to simplify the corporate structure.

Missing from my original list:

Digit Insurance: a start-up. Fastest growing general insurer in India

- https://timesofindia.indiatimes.com/business/india-business/pes-value-insurance-tech-startup-digit-over-800m/articleshow/72448746.cms

2020 Top 10 List: Holding Pattern (Global Pandemic)

Dec 28, 2020

Fairfax has had a very eventful 2020. Below is a Top 15 list of events driving value for shareholders this year. I would characterize 2020 as a 'holding pattern' kind of year given all the disruption caused by covid and its impact on Fairfax, its insurance subs and equity investments. Looking at both 2019 and 2020 there is a lot going on under the hood at Fairfax.

FFH stock price:	Dec 28, 2020 = $336	Dec 31, 2019 = US $469	Change -28%
BV:	Sept 30, 2020 = $442	Dec 31, 2019 = US $486	
Dividend:	$10 (paid Jan 2020).		

1. Covid

- Hit to BV of $54/share in Q1 - primarily due to unrealized losses in investment portfolio (lots of cyclical companies)
- Resulted in losses at insurance subs, led by Brit, of $535.6 million through Q3.

2. Insurance - hard market confirmed

- Net premiums written up 12.7% in Q3, 2020
- Expected to continue strong growth in 2021

3. Sale of Riverstone UK

- Sale providing much needed cash in 2 transactions.
- 40% sold - closed March 31; proceeds of US$599.5
- Remaining 60% sold to CVC Strategic Opportunities Fund II (will close early 2021) for approximately US$750 million at closing + up to US$235.7 million post-closing under a contingent value instrument.
- https://www.globenewswire.com/news-release/2020/12/02/2138249/0/en/Fairfax-Announces-Sale-of-RiverStone-Europe-to-CVC.html

4. Common Stock and Equity Index Short Positions

- Q3 net realized loss = $168 million
- First 9 months realized loss = $391 million
- Biggest negative for the year (under Fairfax control)

5. Increase in total debt

- April 24: additional $650 million at 4.625%

6. Fixing Mistakes

- APR sale to Atlas closed Feb 2020 - Atlas issued approximately 29.9 million ATCO shares to APR sellers as equity consideration, at a deemed value of $11.10 per share.
- Fairfax Africa / Helios - Helios will acquire a 45.9% voting and equity interest in Fairfax Africa in exchange for contributing its entitlement to cash flows from certain fee streams and being appointed sole investment advisor to Fairfax Africa. Fairfax recorded a non-cash net loss on investments of $164 million in consolidated statement of earnings.

7. Opportunistic Bond Purchases during pandemic

- From Q1 report: Purchased US corporate bonds of $2.9 billion; avg maturity of 4 years; interest rate of 4.25%; avg maturity of 4 years; interest income of $123 million per year.

8. Blackberry - new convertible debentures – September

- Fairfax redeemed $500 million 3.75%
- Fairfax subscribed $330 million 1.75%; $6 conversion (55 million shares)
- Fairfax's total commitment was reduced by $170 million (from $500 to $330 million).

9. Digit (India) continues strong growth (30% versus flat for overall insurance market) and expects to reach break-even by end of year

- https://m.dailyhunt.in/news/india/english/money+control+english-epaper-mconten/insurance+startup+digit+set+to+break+even+by+the+end+of+this+year-newsid-n231552142

10. Buying out minority partners

- Brit - 9.4% position purchased in Aug for $220 million. Fairfax now owns 100%.

11. Positioning Non-Insurance Companies to Succeed

- Dexterra - reverse acquisition of Horizon North Logistics - closed in March. https://www.newswire.ca/news-releases/horizon-north-and-dexterra-sign-definitive-agreement-to-create-leading-canadian-support-services-company-898386935.html
- Easton Baseball sold to Rawlings (Seidler Equity Partners) - Existing shareholders of Peak Achievement Athletics Inc., the parent of Easton, will continue to participate as minority owners in the combined organization. https://www.prnewswire.com/news-releases/rawlings-enters-into-definitive-agreement-to-acquire-easton-diamond-sports-301156058.html

12. Monetizations

- Davos Brands – sold Sept 30 - for cash proceeds of $58.6 and realized a net gain of $19.3
- Vault insurance – sale announced in November; will close Q1, 2021
    - Allied World sells controlling position; retains 10% ownership
    - https://www.insurancejournal.com/news/national/2020/11/18/591092.htm

13. Seeding New Insurance Ventures

- Ki Insurance (part of Brit) - announced in May 2020; will be open for business Jan 1, 2021. Ki will aim to significantly reduce the amount of time taken for brokers to place their follow capacity. Ki's algorithm, developed with support from University College London, will evaluate Lloyd's policies and automatically quote for business through an always available digital platform, built by Google Cloud and accessed directly by brokers. Ki has raised US$500m of committed capital from two backers: Blackstone and Fairfax.
    - https://www.britinsurance.com/news/ki-platform-goes-live-with-partner-brokers

14. Insider Stock Purchases

- Prem: buys $149 million in Fairfax stock in June at $310/share.
    - https://www.fairfax.ca/news/press-releases/press-release-details/2020/Prem-Watsa-Acquires-Additional-Shares-of-Fairfax/default.aspx
- Others at Fairfax also were buying.

15. Stelco (Fairfax owns 13 million shares; cost CAN$20.27)

- Amazing year; stock price: Jan 1 was CAN$10.91. In March the stock went to $3.24 per share. Dec 28 the stock closed at $22.11 per share.
- Most importantly the company is positioned very well looking ahead to 2021 and what looks like a bull market for steel; investment phase in the business is ending and Stelco is focussed on maximizing free cash flow generation and rewarding shareholders.

Personnel Changes

- Feb: Paul Rivett (President of Fairfax) retires
- Nov: Scott Carmilani (former CEO of Allied) resigns to run Vault
- APR: Q2 former CEO of APR left (under Atlas umbrella). In June, Brian Rich appointed as new President and COO.

2021 Top 10 List: Emergence of 'New Fairfax'

Jan 31, 2022

Fairfax had an outstanding 2021. In fact, it was one of the best years in the company's history. Below is a Top 10 list of what drove value for shareholders of Fairfax in 2021.

I would characterize 2021 as the year that 'new Fairfax' finally started emerging for all to see. Fairfax had been making important changes under the hood for the past 4 years and 2021 was the year all the hard work finally started to be reflected in the reported financial results.

FFH stock price increased 45% in 2021

- Dec 31, 2021 = $492.13 Dec 31, 2020 = US$340

BV increased 18% in the 9 months to Sept 30 (BV will be higher when Q4 is reported)

- Sept 30, 2021 = US$561.88 Dec 31, 2020 = US$478.33;

Dividend of US$10 dividend was paid Jan 2021

2021 Top 10 List

1.) Net gains on investments of $2.5 billion (to Sept 30) = $96/share

- Equities + Digit revaluation + FFH total return swaps
- Does NOT include pending gain on Digit of $1.1 billion (Digit should be on its own but I decided to include it here).
- FFH TRS: 1.96 million shares at cost of US$373/share. Classic Fairfax move: creative, unconventional, opportunistic, smart, well timed, profitable

2.) Increase in fair value of investments in associates of US$1,372 million (to Sept 30) = $53/share

- This gain is in addition to 'net gains on investments' summarized above.
- This gain is NOT captured in BV.

3.) Significant increase in net premiums written of US$2.3 billion (to Sept 30) = growth of 20.5%

- Hard market that began in Q4 2019 is continuing as we begin 2022

4.) US$1 billion share buy-back Dec: 2 million shares purchased (7% of shares outstanding) at US$500/share

- Financed through the sale of 10% interest in Odyssey for US$900 million
- Share buybacks done below intrinsic value are very accretive for long term shareholders.
- This was the second classic Fairfax move of 2021: creative, opportunistic, smart, well timed

5.) Debt reduction: total debt was paid down. Combined with significant earnings in 2021, debt ratios have improved considerably.

- Largely paid with proceeds from sale of the remainder of Riverstone for US$700 million and 14% interest in Brit for US$375 million.

6.) Underwriting profit increased by $182 million (to Sept 30)

- YTD Sept 30, 2021 = $330; YTD Sept 30, 2020 = $142 million
- Given hard market we should see continued improvement in underwriting profit in 2022 (as written premiums become earned)

7.) Fairfax's two largest equity holdings look well positioned as we begin 2022 and the shares are very cheap:

- Atlas: executed and completed financing on very aggressive new build strategy in 2021. We could see 15-20% EPS growth each year for the next 3 years.
- Eurobank: completed multi-year fix of balance sheet in 2021 and is now poised to grow business and earnings and leverage improving Greek economy

8.) Gulf Insurance Group: completed acquisition of AXA Gulf, increasing in size by about 80%

9.) A number of Fairfax equity holdings completed significant stock buy backs in 2021, significantly increasing Fairfax's ownership percent: Fairfax India, Stelco and Resolute Forest Products.

10.) Changes at private holdings:

- Eurolife stake was increased to 80%
- Pethealth was folded into Crum (Jan 1, 2021)
- Toy 'R Us retail operations were sold (kept real estate)
- Boat Rocker IPO - raised C$170 million - very opportunistic
- Farmers Edge IPO - raised C$125 million – very opportunistic (even though the business continues to struggle)

The bad

1.) Drop in interest and dividend income of $109 million (to Sept 30)
- Sept 30 2021 = $496 million from Sept 30, 2020 = $605 million
- Decline is due to Fairfax reducing duration on bond portfolio.
- This strategy (low duration) carries a short-term cost.
- However, should bond yields move higher (as is currently happening as we begin 2022) Fairfax is well positioned to benefit.

2.) Continued losses from what is left of runoff; what will average loss be moving forward?
- $25 million/quarter?

2022 Top 10 List: Operating Income Spikes

Fairfax has had an outstanding 2022. I characterized 2021 as the year that 'new Fairfax' finally started emerging for all to see. We got more of the same in 2022. Fairfax has been making important changes under the hood for the past 5 years and 2021/2022 are the years in which much of the hard work is being more fully reflected in the reported financial results. Importantly, operating income (underwriting profit + interest and dividends + share of profit of associates) is spiking higher.

FFH stock price increased 20% in 2022 (to Dec 29)

- Dec 29, 2022 = US$591.73 Dec 31, 2021 = $492.13

S&P500 is down 19% so Fairfax's outperformance of close to 40% has been significant in 2022.

BV decreased 9.5% in the 9 months to Sept 30 (BV will likely be much higher when Q4 is reported).

- Sept 30, 2022 BV = US$569.97 Dec 31, 2021 BV = US$630.60

Dividend of US$10 dividend will likely be paid Jan 2022 (it is usually announced in early January).

How can I say Fairfax had a great year in 2022 if BV is down 9.5% Sept YTD? The hit to BV is coming primarily from the spike in bond yields. We just had the worst year for bonds in something like 200 years! To Sept 30, 2022, net losses on investments was $2.3 billion (about $100/share) = $1.4 billion in bonds + $500 million in stocks + $400 million in currency. Counter intuitively, the spike in bond yields is actually the best thing that could have happened to Fairfax in 2022.

Importantly for Fairfax, most of the 'losses' in the bond portfolio will likely reverse over the next year or two as bonds are held to maturity. And moving forward, Fairfax will be generating record amounts of interest income…. see below for the details. I also expect Fairfax to earn +$60/ share in Q4, which if it happens, will push BV for the full year into positive territory. So even though BV will finish 2022 up only slightly, as we will learn below, the future earnings power of Fairfax has never looked better.

2022 Top 10 List

1.) Increase in interest income:

- Interest income should increase to a record $830 million in 2022 from $568 million in 2021 which equals an increase of about US$260 million (+45%). In 2023 my guess is interest income will increase further to a staggering $1.37 billion, a $540 million increase (+65%) over 2022, and a 140% increase over 2021. For reference, $1.37 billion = $58/share and FFH shares are trading today under US$600. Fairfax is trading today at about 10X interest income (pre-tax). Nuts. The significant increase in interest income will be the gift to Fairfax shareholders that will keep on giving for years into the future.

- Fairfax has an investment portfolio of about $51 billion. Of this total, about $36 billion is fixed income. Over 2021 Fairfax reduced the average duration of their fixed income portfolio to 1.2 years. Most P/C insurers have an average duration closer to 4 years. With such a low duration portfolio, Fairfax has been able to benefit from spiking interest rates by rolling over most of their fixed income portfolio into much higher rates. In Q3 they also started extending the average duration of their fixed income portfolio to 1.6 years by buying longer dated US treasuries (with 3 to 5-year duration). Increasing duration will lock in higher yields for years into the future.

2.) Increase in underwriting income:

- Net premiums written will increase to a record $22 billion in 2022 from $17.8 billion in 2021 (+20% growth) and $14.7 billion in 2020 (+50% growth over the last 2 years). In turn, this is spiking underwriting profit which I estimate will come in at a record $970 million in 2022 (estimated 95CR), compared to $801 million in 2021 (95CR) and $308 million in 2020 (97.8CR). In 2023 my guess is net premiums written will increase 15% to $25.4 billion and underwriting profit will increase to $1.1 billion (assuming a 95CR). For reference, $1.1 billion = $47/share. The significant increase in net premiums and underwriting profit will be the gift to Fairfax shareholders that will keep on giving for years into the future.
- What is driving the substantial increase in net premiums written? We are in a hard market for P/C insurance. It started in late 2019 and looks like it will continue well into 2023. Re-insurance rates are set to spike higher in 2023 and this should benefit Fairfax as they have a large re-insurance business.

3.) Increase in share of profit of associates:

- This source of earnings had a break-out year in 2022. I estimate share of profit of associates will finish 2022 at a record of around $1 billion = $43/share. Over the 5-year period, from 2017-2021, 'share of profit of associates' averaged about $200 million per year for Fairfax. My guess is 'share of profits of associates' could deliver around $1 billion again in 2023.
- That is a huge increase in a very short period. What happened? Put simply, the earnings power of the equity holdings captured in the 'associates-equity accounted' bucket is beginning to shine through. The turnarounds have (finally) turned around (Eurobank). The fast growers are executing well (like Atlas). The commodity bull is running (Resolute, Stelco, EXCO Resources).

4.) Significant asset monetization:

- Fairfax pulled a rabbit out of its hat in 2022. On October 31, 2022, Fairfax closed on the sale of C&F Pet Insurance Group and Pethealth to Independence Pet Group (majority owned by JAB Holding Company) for proceeds of $1.4 billion in the form of $1.15 billion in cash and $250 million in seller debentures.
    - In Q4 Fairfax expects to record a pre-tax gain of approximately $1,278 million and an after-tax gain of approximately $992 million ($42/share).
- Bottom line, Fairfax sold a business no one knew they owned for a $992 million gain after-tax. For a little background, Fairfax purchased Hartville Group for $34 million in 2013 and Pet Health for $89 million in 2014 and in 2022 sold the combined entity for $1.4 billion.

That is nuts. Fairfax has a long history of buying small insurance businesses and patiently growing them over a decade or more and then selling them for very large gains: First Capital, ICICI Lombard, Riverstone UK and now C&F pet insurance. Very impressive. Makes one wonder what else Fairfax has in the cupboard that is under-appreciated by investors?

5.) Asset monetization:

- Sale of Resolute Forest Products to Domtar for cash of $626 million + $183 million contingent value right (tied to duties collected). The timing of this sale was perfect. Resolute was sold at a high price ($20.50/share). When it closes proceeds can be rolled into other investment opportunities at bear market lows. Regulatory approval for the deal was just given (late Dec). As much as I like the lumber part of the business over the next 5 years or so... the newsprint/paper part of the business looks ugly. Very happy with this transaction.

With (likely) record underwriting profit and interest and dividend income and significant asset sales, Fairfax generated a significant amount of cash in 2022. We should see more of the same in 2023. This is a significant development for Fairfax. Cash is a very good thing, especially when you are in a bear market and both bonds and equities are on sale (that buy low thing).

So, what did we see Fairfax do with all that cash in 2022? Record equity investments of around $2 billion. Surprised?

6.) Take private of 2 businesses:

- Fairfax spent $537 million as follows:
  - July - Grivalia Hospitality ($195 million)
  - August - Recipe ($342 million).
- These are two businesses Fairfax understands very well as they had already owned significant stakes in both for years. Both purchases were highly opportunistic given they were made as we were just emerging from Covid, and the price paid likely reflected depressed earnings (at least in the case of Recipe).

7.) Increase ownership stake in businesses already owned:

- Fairfax spent $506 million as follows:
  - February - Fairfax India ($65 million)
  - March - exercise of Atlas warrants ($201 million)
  - April - exercise of Altius warrants ($78 million)
  - April - Ensign Energy debenture conversion ($9)
  - June - John Keells debentures ($75 million)
  - Oct - exercise Foran Mining warrants ($25 million)
  - Dec - Mytilineos ($53 million).

8.) Increase partnership:

- Fairfax spent $300 million on preferred equity in Kennedy Wilson. Fairfax has a long history with Kennedy Wilson, going back to 2010. Kennedy Wilson has been Fairfax's real estate partner for over a decade.

When you put 6.) + 7.) + 8.) together… Fairfax spent $1.343 billion, a significant chunk of money, increasing its ownership in businesses that it was already invested in. These are businesses and management teams that Fairfax understands well.

9.) US large cap purchases:

- Over the first 9 months of 2022, Fairfax spent about $350 million:
  - Micron Technologies ($152 million)
  - Bank of America ($96 million)
  - Occidental Petroleum ($54 million)
  - Chevron ($45 million)

- Of interest, coming out of the Great Financial Crisis in 2008-09, Fairfax spent over $1 billion on a bunch of large cap US stocks: Wells Fargo, J&J, US Bancorp, and USG. It would not surprise me to see Fairfax continue to build out their holdings of large cap US stocks in Q4 and into 2023.

10.) Increase private equity holdings/partnerships:

- As part of the pet insurance sale, Fairfax invested $450 million in two separate deals with JAB Holdings. JAB is a privately held German conglomerate. The two transactions:
  - $250 million in debentures
  - $200 million in JAB - JCP V investment funds.

- Fairfax already had significant investments/partnerships with other private equity shops like BDT Capital Partners and ShawKwei. The investment in JAB expands and diversifies Fairfax's significant portfolio of private equity type holdings.

When you put 6.) + 7.) + 8.) + 9.) + 10.) together… Fairfax spent around $2 billion on a collection of businesses that look like solid additions to Fairfax's existing portfolio of equity holdings. Nothing flashy. Boring. Low risk. Good value / opportunistic purchases. Sold upside. Just what many Fairfax shareholders have been asking for…

Fairfax is once again planting lots of seeds. Over time, these investments will all grow and compound in value to the benefit of Fairfax shareholders. A larger equity portfolio will drive higher future earnings. And this will drive the stock price higher. This is just another of many catalysts in place at Fairfax. Fairfax is once again playing offence with its investment portfolio.

11.) Continue to take out minority shareholders of insurance businesses:

- On Sept 27, 2022, Fairfax increased its ownership interest in Allied World to 82.9% from 70.9% for total consideration of $733.5 million ($228 million hit to retained earnings) funded via $750 million debt offering. Fairfax buying out minority partners is a solid use of cash. Low risk. Solid return.

12.) Fred VanVleet - bet on yourself update:

- FFH total return swap (TRS) investment continues to perform exceptionally well, up $200 million in 2022.
    - FFH share price Dec 30, 2022 = $594/share.
    - FFH share price Dec 31, 2021 = $492/share.
    - TRS = 1.96 million FFH shares. ($594 x 1.96 = $1.164 billion market value.).
- Given Fairfax shares remain crazy cheap, my guess is Fairfax continues to hold this position.

13.) Share buybacks:

- To Sept 30, 2022, Fairfax had repurchased 419,000 shares = 1.8%. Common stock effectively outstanding was 23.445 million at Sept 30,2022 and 23.865 million on Dec 31, 2021. My guess is Fairfax continued to buy back shares in Q4, especially after the pet insurance deal closed the end of October. It will be interesting to see how aggressive Fairfax gets with share buybacks in 2023.

14.) Share buybacks at Fairfax's equity holdings:

- Both Fairfax India and Stelco bought back shares in 2022 and this boosted Fairfax's ownership stake in each company.
    - Fairfax owns/controls 58.4 million shares of Fairfax India (as of Feb 2022). Total share count at Fairfax India has fallen:
        - Dec 31, 2020 = 149.4 million
        - Dec 31, 2021 = 142.2 million
        - Sept 30, 2022 = 138.7 million.
    - Fairfax's ownership at Fairfax India increased from 37.3% to 42.1%.

    - Fairfax owns 13 million shares of Stelco. Total share count at Stelco has fallen significantly:
        - Dec 31, 2020 = 88.7 million
        - Dec 31, 2021 = 77.3 million
        - Nov 1, 2022 = 55.1 million.
    - Fairfax's ownership at Stelco increased in 2022 from 16.8% to 23.6% (significant).

15.) Proposed privatization of Atlas:

- A group (lead by David Sokol) has proposed to take Atlas private at $15.50/share. Fairfax (with 45% stake) is supportive of the deal. Fairfax is not obligated to purchase any additional shares. The deal is expected to close in 1H 2023. This is a massive deal and involves Fairfax's

largest equity holdings. I don't have a strong opinion on the proposed deal right now. All things being equal, I think being a private company is better for Atlas. However, I do not like the lack of financial details available on Fairfax's private holdings.

Negatives

1.) Increase in net debt of $1.3 billion:

- Net debt Sept 30, 2022 = $7.6 billion.
- Net debt Dec 31, 2021 = $6.3 billion.
- The pet insurance sale closed the end of October so the net debt number will come down when Q4 is reported. It will be interesting to see if Fairfax decides to bump the minimum $1 billion cash target at hold co to a higher number moving forward.

2.) Impairment charge:

- Non-cash impairment charge on goodwill of Farmers Edge of $109.2 recognized in the second quarter of 2022. Like all large companies, Fairfax has a few warts.

3.) Continued losses from what is left of runoff:

- What will average loss be moving forward?
    - $25 million/quarter?

Personnel Changes

- Feb: Peter Clarke promoted to President of Fairfax

2023 Top 10 List: Fairfax Achieves 'Escape Velocity'

January 9, 2024

'Escape velocity' Fairfax edition, featuring David Bowie - Space Oddity

https://youtu.be/iYYRH4apXDo?si=d4s1WQjQEBdQufBP

Prem to Fairfax investors: "Take your protein pills and put your helmet on."

Fairfax's business and financial results have been steadily improving each of the past three years. 2023 was the year overall company performance achieved 'escape velocity' - finally breaking free from the gravitational pull/orbit of its recent past (2010-2020). The company - its business results/earnings and reputation - is now charting new territory.

Investors have noticed. Fairfax's stock increased 55% in 2023. Over the past 3 years, Fairfax's stock is up 170% and it has outperformed the S&P500 by a staggering 143%.

Fairfax (US$)	Stock Price	YOY change	increase over past 36 months	S&P500	YOY change	increase over past 36 months
Dec 31, 2020	$340.94		170%	3,756		27%
Dec 31, 2021	$492.13	44%		4,766	27%	
Dec 31, 2022	$594.12	21%		3,840	-19%	
Dec 31, 2023	$920.76	55%		4,770	24%	

Book value per share increased at Fairfax by 33% in the 9 months to Sept 30, 2023, and 83% over the past 33 months. My guess is BV will be up nicely in Q4. This is best-in-class performance compared to other P/C insurance peers. The performance of a few that I follow - Chubb, WR Berkley and Markel (all good P/C insurers) - has not come close to the performance of Fairfax over the past three years (in terms of growth of BV/share).

Fairfax	Book Value US$	Increase	increase over past 33 months
Dec 31, 2020	$478.00		83%
Dec 31, 2021	$631.00	32%	
Dec 31, 2022	$658.00	4%	
Sept 30, 2023	$877.00	33%	

A dividend of US$10/share was paid Jan 2023. Fairfax recently announced the dividend to be paid in January 2024 will increase to $15/share, which is an increase of 50%.

Top 10 'events' driving shareholder value in 2023

1.) Exceptional overall company performance. This might sound like a cop-out. But I don't think so. ALL three of Fairfax's economic engines performed at a very high level in 2023:

- Insurance
- Investments - fixed income
- Investments - equities/derivatives

As a result, Fairfax is poised to deliver - for the second year in a row - record results in each of underwriting profit, interest and dividend income and share of profit of associates. In 2023, operating income per share is poised to increase 43% (to $190/share) over 2022. Over the past three years, operating income per share is up a staggering 415% - this very important measure of company results has indeed achieved 'escape velocity.'

Fairfax - Operating Income				
December 31, 2023	**2020**	**2021**	**2022**	**2023E**
Underwriting profit - ins & reins.	$309	$801	$1,105	$1,373
Interest & dividends	$769	$641	$962	$1,929
Share of profit of associates	-$113	$402	$1,015	$1,100
Operating income - ins & reins	**$965**	**$1,844**	**$3,082**	**$4,402**
Per share	$37	$77	$132	$190
Shares Outstanding Dec 31	26.2	23.9	23.3	23.2

My latest estimate has Fairfax delivering an ROE of about 20% in 2023. That is exceptional performance. But more important than the results delivered in 2023, Fairfax's insurance and investment holdings continue to grow in size and improve in quality. This sets the table nicely for continued earnings growth (and high ROE's) in the coming years.

2.) Extending the average duration of the fixed income portfolio from 1.6 years at Dec 31, 2022 to 3.1 years in October 2023.

> *Prem Watsa - Fairfax Q3, 2023 Conference Call:*
> "Recently, in October, during the spike in treasury yields, we have extended our duration to 3.1 years with an average maturity of approximately 4 years, and yield of 4.9%."

Over the past three years, the fixed income team at Fairfax has superbly navigated the company (and Fairfax shareholders) through the greatest fixed income bubble top and subsequent bear market in history. They protected the balance sheet from billions in unrealized losses. And, by meaningfully extending the average duration, they have locked in high interest income for years in the future.

Fairfax Fixed Income	Average Duration Years	5 year US Treasury
December 31, 2021	1.2	1.26%
December 31, 2022	1.6	3.99%
October 2023	3.1	4.95%

3.) Insurance sub Allied World is delivering great results again in 2023 (after having a stellar 2022)

- To Sept 30, CR = 90.6%, UW profit = $318.5 million and net premiums written were +10.2% to $3.88 billion.
- To be fair, most of Fairfax's insurance subsidiaries are having a very good year. There is a good chance Fairfax could deliver a company-wide CR under 94% for 2023.

4.) The value (stock price) of Fairfax's position in Eurobank increased about $715 million in 2023.

- Over the past three years, the position is up $1.33 billion.
- Eurobank earnings spiked higher in 2022 and again in 2023.
- The company has solid growth prospects; the pending acquisition of Hellenic Bank will be a catalyst in 2024.
- Dividend will likely be re-instated in early 2024 and this should be supportive of the stock price.
- Fairfax's decision to merge Grivalia Holdings into Eurobank in 2019 is looking especially brilliant. With hindsight, the move allowed Fairfax to sell high (Grivalia) and buy low (Eurobank). At the time, the transaction was good for both parties.

Fairfax & Eurobank: 3-Year Performance				Annual	
1,166mn shares	Stock Price		Value of	Change in Value	
	Euro	US$	Position	$	%
Dec 31, 2020	€ 0.579	$0.639	$745	n/a	n/a
Dec 31, 2021	€ 0.891	$0.985	$1,148	$403	54%
Dec 31, 2022	€ 1.055	$1.166	$1,359	$211	18%
Dec 31, 2023	€ 1.610	$1.779	$2,074	$715	53%
Three Year Gain in Value				**$1,329**	**230%**

5.) The value of Fairfax's position in FFH-Total Return Swaps increased $640 million in 2023(giving it exposure to 1.96 million Fairfax shares).

- Since inception (basically three years), the position is up $1.07 billion.
- Fairfax shares continue to look very cheap, which suggests this position could continue to perform well for Fairfax.

Fairfax - Total Return Swap	FFH Share	TRS Market	Annual Increase in Value	
1.96 mill shares	Price	Value	US$	/share
Q4 '20/Q1 '21	$373	$731	n/a	n/a
Dec 31, 2021	$492	$965	$233	$10
Dec 31, 2022	$594	$1,164	$200	$9
Dec 21, 2023	$921	$1,805	$640	$28
Three Year Gain in Value			**$1,074**	**$46**

Position put on Q4-2020 and Q1-2021; Avg cost = $373/sh.

6.) Estimated increase in net premiums written in 2023 of $1.4 billion or 6% to $23.7 billion.

- The hard market in P/C insurance that started in late 2019 continued in 2023.
- Over the last three years, net premiums written have increased $9 billion or 61%.
- For some perspective, Warren Buffett purchased P/C insurer Alleghany in 2022 for $11.2 billion. In 2022, Alleghany had gross premiums written of $8.5 billion.
- The growth Fairfax has experienced the past three years in net premiums written has increased the intrinsic value of the company considerably.

Fairfax: Change in Net Premiums Written

	NPW US$bn	YOY Change	increase over past 36 months
2020	$14.7	n/a	61%
2021	$17.8	21%	
2022	$22.3	25%	
2023E	$23.7	6%	

7.) Purchase of KIPCO's 44.3% interest in Gulf Insurance Group, increasing Fairfax's stake from 43.7% to 90%.

- Cost? Aggregate fair valuation consideration of approximately $740 million (upfront payment of around $177 million and then 4 equal annual payments of $165 million).
- Prem on Fairfax Q1, 2023 Conference Call: "We structured it (the deal) in a way that perhaps a lot of it (annual payments) will come from the company itself, dividends from the company."
- Size of GIG (2022): Net premiums written of $1.7 billion and investments of $2.4 billion.
- Deal closed in December. In Q4, Fairfax will book a pre-tax gain of around $290 million.
- Fairfax goes from being a minority shareholder in GIG to the controlling shareholder.
- Strategically, this secures Fairfax's position as one of the leading P/C insurance providers in the Middle East North Africa (MENA) region.
- Fairfax is using its substantial cash flow to grow its insurance operations. It is also buying more of something it already owns (and knows well), a capital allocation strategy endorsed by both Peter Lynch and Warren Buffett.

8.) Purchase of $1.8 billion of PacWest real estate loans with expected annual return of 10%.

- This was one of Fairfax's big capital allocation decisions of 2023; very contrarian, very opportunistic and deep value.
- Expansion of real estate/debt platform partnership with Kennedy Wilson (to over $4 billion in total).
- Fairfax also invested $200 million directly in KW in debentures (6%) with 7-year warrants (12.3 million shares with strike price of $16.21).
- In December, it appears Fairfax increased their commitment to the KW debt platform by $2 billion from $8 billion to $10 billion. This will be something to monitor in 2024.

9.) The market value of Fairfax's position in Thomas Cook India (TCIL) increased about $305 million in 2023.

- The excess of market value to carrying value (at Sept 30) increased by about $379 million. A significant portion of the value of TCIL is not captured in Fairfax's book value (about $338 million at YE).
- On December 1, Fairfax sold 40 million shares for proceeds of $67 million.
- Covid hit TCIL especially hard. TCIL (and Sterling Resorts) aggressively cut costs. With its travel businesses rebounding strongly in 2023, the much lower cost base is now spiking profits.

Fairfax and Thomas Cook India Year-Over-Year Change in Value of Position					Carrying Value	Excess MV to CV	
	Shares	Market Value					
	mn	INR	US$	Total $	Total $	Total $	
Dec 31, 2022	340.4	₹ 71.15	$0.85	$290	$214	$76	
Dec 31, 2023	300.3	₹ 146.70	$1.76	$528	$191	$338	Carrying value at Sept 30
Sale Dec 1	40.0		$1.67	$67	$25	$41	Carrying value at Sept 30
Total 2023 value				**$595**	**$216**	**$379**	
YOY Increase in Value of Total Position				**$305**			

10.) Monetized another asset and booked a $275 million pre-tax investment gain (closed in Q2, 2023).

- Sale of Ambridge Group (MGU operations of Brit) to Amynta Group for $379 million (and an additional $100 million subject to 2023 performance targets).
- Fairfax also entered into multi-year strategic partnership with Amynta

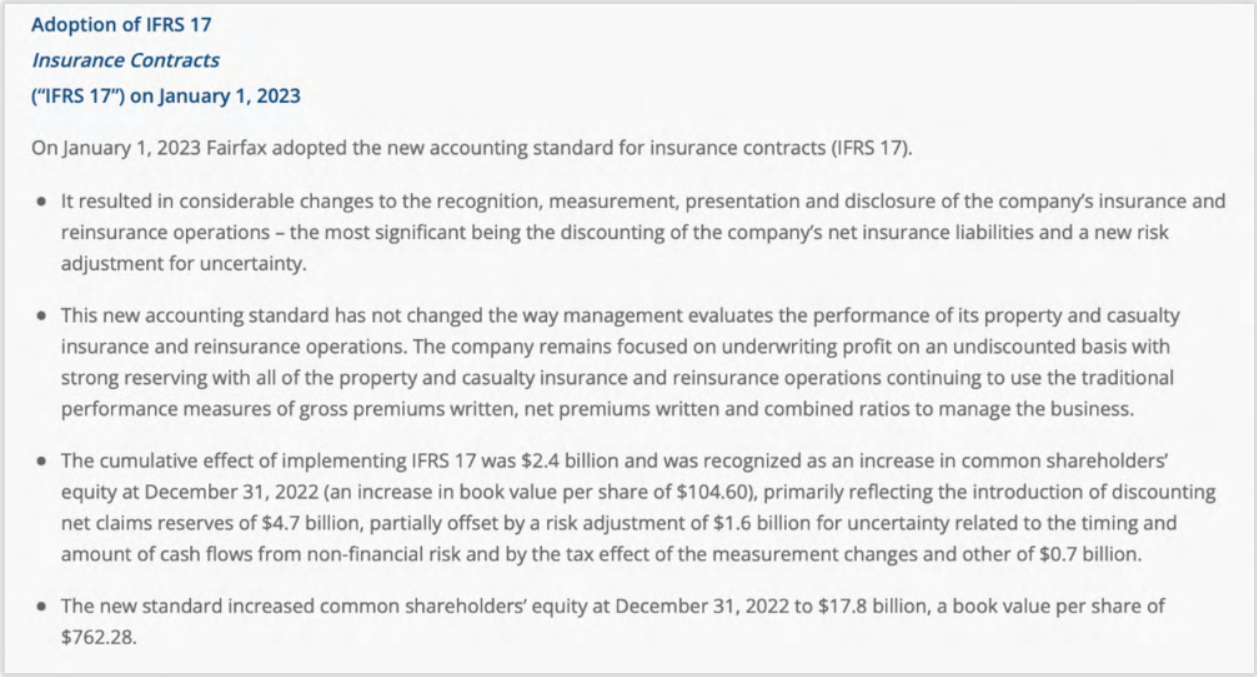
Asset sales are important part of capital allocation framework at Fairfax, and this is something that differentiates it from BRK and Markel.

Why sell an asset? Someone values it much more and/or for strategic reasons (the asset is a better fit elsewhere).

Accounting Change:

Implementation of IFRS 17 accounting standard Jan 1, 2023, increase BV per share by $104.60.

- On January 1, 2023, Fairfax (and all Canadian insurers) were required to implement IFRS 17 accounting standard. The cumulative effect of implementing IFRS 17 resulted in an increase in common shareholders' equity at Fairfax of $2.4 billion at December 31, 2022.
- Pre-IFRS 17, at December 31, 2022, BV/share was US$658.
- Post-IFRS 17, at December 31, 2022, BV/share was US$762.
- Below is what Fairfax had to say about IFRS 17 when they released Q1, 2023 results:



Adoption of IFRS 17

Insurance Contracts

("IFRS 17") on January 1, 2023

On January 1, 2023 Fairfax adopted the new accounting standard for insurance contracts (IFRS 17).

- It resulted in considerable changes to the recognition, measurement, presentation and disclosure of the company's insurance and reinsurance operations – the most significant being the discounting of the company's net insurance liabilities and a new risk adjustment for uncertainty.
- This new accounting standard has not changed the way management evaluates the performance of its property and casualty insurance and reinsurance operations. The company remains focused on underwriting profit on an undiscounted basis with strong reserving with all of the property and casualty insurance and reinsurance operations continuing to use the traditional performance measures of gross premiums written, net premiums written and combined ratios to manage the business.
- The cumulative effect of implementing IFRS 17 was $2.4 billion and was recognized as an increase in common shareholders' equity at December 31, 2022 (an increase in book value per share of $104.60), primarily reflecting the introduction of discounting net claims reserves of $4.7 billion, partially offset by a risk adjustment of $1.6 billion for uncertainty related to the timing and amount of cash flows from non-financial risk and by the tax effect of the measurement changes and other of $0.7 billion.
- The new standard increased common shareholders' equity at December 31, 2022 to $17.8 billion, a book value per share of $762.28.

Honourable mention:

- Digit - growth of the business during the year was solid.
- BIAL - back in growth mode. Fairfax India purchased another 10% for $250 million.
- Increase in value of Mytilineos share price.
- Turnaround at Brit? After a couple of years of underperformance (from an underwriting perspective) it looks like Brit might have turned the corner in 2023.
- Reduction in size of Blackberry debenture to $150 million (to Feb 14, 2024), down from $365 million (was $500 million in 2020). Capital continues to be re-allocated from under-performers to better opportunities.
- I estimate Fairfax will reduce shares outstanding by about 1% in 2023. This is at a slower pace than the past couple of years. Over the past three years, the share count has been reduced by 3.06 million shares or 11.7%, at an average cost of US$508. My guess is Fairfax's BV will finish 2023 north of US$900. This is yet another example of excellent capital allocation by Fairfax.

Fairfax - Reduction In Shares Outstanding - Last 3 Years				
Date	Effective Shares Outstanding million	Share Reduction million	Avg Cost Per Share	Total Cost US$ bn
Dec 31, 2020	26.176	n/a	n/a	n/a
Dec 31, 2021	23.866	2.310	$490	$1.132
Dec 31, 2022	23.325	0.541	$509	$0.275
Sept 30, 2023	23.116	0.209	$698	$0.146
Totals	**-11.7%**	**3.060**	**$508**	**$1.553**

Incomplete:

- Meadow Foods (UK): how much did Fairfax spend to purchase a majority position in August? What are prospects of the company? (Company had £550 million in sales…)

Negatives:

- Continued decline in prospects of Blackberry/share price (market value of Fairfax's position is down to $165 million at Dec 31, 2023).
- End of Farmers Edge: Fairfax is taking company private (to harvest significant tax losses?).
- Adverse reserve development in runoff of $80 million in 1H. Something to monitor.
- Digit: IPO: company appeared to continue to fumble the ball with regulators in India.
    - Still waiting for clarity on compulsory convertible preferred shares (expected to take Fairfax's ownership position from 49% to 74%); appears to be another issue with regulators in India.

Personnel announcements:

- January 2023 Fairfax news release: "Brian Young, CEO of Odyssey Group, will begin to share oversight responsibilities with Andy Barnard, President of Fairfax Insurance Group, over all of Fairfax's insurance and reinsurance operations. Brian Young will continue as CEO of Odyssey Group."

2024 Top 10 List: The emergence of a high-quality company

January 14, 2025

2024 was another very good year for Fairfax and its shareholders. It was a deceptively good year - other than share buybacks, Fairfax didn't do anything that was overly flashy or that really stood out. Rather, in 2024, the company quietly went about doing its business.

But here is the really interesting point - when you look under the hood, Fairfax had a very busy year. From an operating perspective, both of its engines - insurance and investment management - continued to execute very well. From a capital allocation perspective, the senior management team at Fairfax also executed very well. As a result, the significant earnings that were generated during the year were put to good use.

Here are some additional thoughts:

- Impressive breadth of activities - Fairfax pulled on many different levers across all parts of the company.
- Complementary - At year-end, we can see and better appreciate how everything Fairfax did fits together like the pieces of a puzzle.
- Patience/discipline - Fairfax did not force things - during the year they took what they were given. This is a sign of the maturity of the company.

The key point: When you stack our top 10 list - one item on top of the other - you begin to grasp what an outstanding year 2024 really was - **significant long term per share value was created for shareholders**.

So, when you read the top 10 list below try and do this: for each item, try and visualize how it impacts Fairfax's income statement and balance sheet. And when you are done reading the complete list, try and do the same thing, but this time incorporating all 10 items together. If you can do this, you will more fully appreciate what Fairfax was able to accomplish in 2024.

Quality

High quality and well-run companies make it look easy. Of course it's not. But that is what we have been seeing from the team at Fairfax for each of the past 4 years.

And that is probably the biggest takeaway in 2024 for investors - we can now say with a fair bit of confidence that Fairfax is a high-quality company. Its P/C insurance business is high quality. Its investment management business is high quality. And its senior management team is one of the best in the business. In short, likely for the first time in its history, Fairfax has become a 'triple threat' P/C insurance company.

This is important because the level of 'quality' is what ultimately determines future results (and growth in intrinsic value) - and this is what determines how a company is valued by investors (the multiple).

Before we get to our Top 10 list, how did Fairfax's stock perform in 2024?

Fairfax's stock was up 51% (US$) and 64% (C$) in 2024. Fairfax also paid a $15 (US$) dividend, so shareholder returns were slightly higher. (All numbers are US$ unless otherwise noted)

Over the past 4 years, Fairfax's stock is up 308% and 361% (C$). It has also paid total dividends of $45/share. The performance of Fairfax's stock over the past 4 years has been outstanding - in absolute terms and when compared market averages (and peers).

Although it has improved in recent years, the valuation of Fairfax's stock continues to lag that of peers. This suggests to me the 'quality' part of the Fairfax story is not yet recognized/appreciated by investors.

Fairfax's Share Price - 4 Year Performance versus the Market Averages

Ex Dividends	Fairfax C$	Increase %	Fairfax US$	Increase %	S&P500 US$	Increase %	S&P/TSX C$	Increase %
Dec 31, 2020	$434		$341		3,756		17,433	
Dec 31, 2021	$622	43%	$492	44%	4,766	27%	21,223	22%
Dec 31, 2022	$802	29%	$594	21%	3,840	-19%	19,385	-9%
Dec 31, 2023	$1,223	52%	$921	55%	4,770	24%	20,958	8%
Dec 31, 2024	$2,000	64%	$1,390	51%	5,882	23%	24,728	18%
4-Year Total Increase		361%		308%		57%		42%
4-Year CAGR		47%		42%		12%		9%

Top 10 'events' driving shareholder value in 2024

The items in the Top 10 list have been loosely prioritized - from most important to least important. Related items have been grouped. We also have tried to tell a story - to provide readers with context. As a result, we have played with the order of some items (most notably, share buybacks, which likely should have been #2 on the list this year). Bottom line, the Top 10 list should be viewed as pieces to a puzzle - the key is to try and focus on the picture that is produced when all the pieces have been put together.

Ok. Let's get started.

1.) Record operating income

Operating income at Fairfax averaged $1 billion from 2016 to 2020. In 2021, it almost doubled to $1.8 billion. In 2022, it tripled to $3.1 billion. In 2023, it quadrupled to $4.4 billion.

At the beginning of 2024, many investors questioned if this much higher level of operating income was sustainable. We got our answer in 2024: yes. Not only is it sustainable - it is growing. Especially per share.

Operating income is expected to come in at around $4.7 billion in 2024 - a new record for Fairfax. This is an increase of 7% over 2023. Operating income is valued so highly because of all the sources of earnings it is considered durable/sustainable and predictable.

Per share metrics are what really matter.

Because of all the share buybacks that Fairfax has done over the past 4 years, the increase in operating income per share has been much higher. From 2016 to 2020, operating income averaged $39/share. In 2023 it was $193/share. In 2024, it is poised to come in at around $219/share. This is a 462% increase in 4 years (over the average from 2016 to 2020). The increase in operating income per share over the past 4 years has been breathtaking.

In 2024, operating income per share increased 13.2% (over 2023). The significant share buybacks that Fairfax did in 2024 almost doubled the rate of growth per share. More on share buybacks later.

Assumptions built into 2024 estimated results:

- Underwriting profit: Growth in NPW = 11%; CR = 94%
- Interest and dividend income: Average yield = 4.9%; Average duration = 3.5 years.
- Share of profit of associates: Driven by Eurobank and Poseidon (Atlas)

Importantly, over the past 2 years, operating income has averaged $4.6 billion per year. This is likely a good number to use to estimate 'normalized' operating income for Fairfax for the coming years.

Over the past 4 years, Fairfax has delivered an average 'operating income ROE' of 19%. This is more than double the average from 2016 to 2020 of 9%. Yes, Fairfax has been 'transformed'.

Fairfax - Operating Income									
Jan 13, 2024	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**
Underwriting profit - ins & reins.	$576	-$642	$319	$395	$309	$801	$1,105	$1,522	$1,479
Interest & dividends	$555	$559	$784	$880	$769	$641	$962	$1,896	$2,408
Share of profit of associates	$24	$201	$221	$170	-$113	$402	$1,015	$1,022	$855
Operating income - ins & reins	**$1,155**	**$118**	**$1,323**	**$1,444**	**$965**	**$1,844**	**$3,082**	**$4,441**	**$4,742**
Per share	$50	$4	$49	$54	$37	$77	$132	$193	$219
Shares Outstanding Dec 31	23.1	27.75	27.2	26.8	26.2	23.9	23.3	23	21.7
Operating Income ROE	13%	1%	11%	12%	8%	14%	21%	23%	22%
E = average equity	5-Year Average (2016-2020) = 9%					4-Yr Avg (2021-2024E) = 19%			
Year End Book Value Per Share	$367	$450	$432	$486	$478	$631	$658	$940	$1,085

2.) Net premiums written per share continues to grow high-teens

Fairfax's net premiums written is estimated to finish the year at a record $25.4 billion. Year-over-year, the increase is 10.9%. On a per share basis, the increase is 17.6%. The big driver of the increase

in net premiums written was the consolidation of Gulf Insurance Group. Fairfax also continued to grow its insurance business in the hard market.

Over the past 5 years, Fairfax has increased the per share size of net premiums written at an impressive CAGR of 18.8%.

Fairfax: Net Premiums Written - 5 yr Change					YE
	Total		Per Share		Shares
31-Dec	$b	%	$	%	m
2019	$13.3		$495		26.8
2020	$14.7	11.0%	$562	13.6%	26.2
2021	$17.8	21.0%	$745	32.6%	23.9
2022	$22.3	25.2%	$957	28.4%	23.3
2023	$22.9	2.7%	$996	4.0%	23.0
2024E	$25.4	10.9%	$1,171	17.6%	21.7
5-yr Change	$12.1	92%	$676	137%	
5-yr CAGR		13.8%		18.8%	

How about underwriting?

Fairfax's combined ratio is estimated to come in at about 94% in 2024. The combined ratio average over the past 5 years is 95.3%. In 2024, underwriting profit per share is estimated to come in at $68/share, a new record for Fairfax. This is very good performance.

Bottom line, Fairfax has a high-quality insurance business. And it has been growing like weed.

Fairfax: Underwriting - 5 yr Performance				
		UW Profit		YE Shares
Year	CR	$m	/Share	m
2019	96.9	$395	$15	26.8
2020	97.8	$308	$12	26.2
2021	95.0	$801	$34	23.9
2022	94.7	$1,105	$47	23.3
2023	93.2	$1,522	$66	23.0
2024E	94.0	$1,479	$68	21.7
5-yr Change		$1,085	$53	
		275%	363%	
5-yr CAGR		30.2%	35%	
5-yr Avg	95.3			

3.) Performance of Fairfax Total Return Swap - 1.96 million Fairfax shares

Fairfax established its total return swap position - giving it exposure to 1.96 million Fairfax shares - in late 2020 and early 2021. The average cost was US$373/share.

In 2024, this investment delivered a return of $914 million (before carrying costs) or 50% (calculated using its 2023YE notional value). Since inception (over the past 4 years) this investment has delivered a total return of $2.0 billion (before carrying costs). It has become one of Fairfax's best-ever investments.

Yes, this is a 'non-traditional' type of investment for a P/C insurance company to make. When it comes to capital allocation Fairfax today looks like a modern version of Henry Singleton's approach when he ran Teledyne (he was also very open minded and creative in how he approached and executed capital allocation when he ran Teledyne).

Fairfax - Total Return Swap	FFH Share	TRS Market	Annual Increase in Value (US$)	
1.96 mill shares	Price	Value	Total	/Share
Q4 '20/Q1 '21	$373	$731	n/a	n/a
Dec 31, 2021	$492	$965	$233	$10
Dec 31, 2022	$594	$1,164	$200	$9
Dec 31, 2023	$921	$1,805	$640	$28
Dec 31, 2024	$1,391	$2,719	$914	$40
4-Year Gain in Value			**$1,987**	**$86**

Position put on Q4-2020 and Q1-2021; Avg cost = $373/sh.

4.) Performance of Eurobank

With a 2024YE market value of $2.9 billion, Eurobank is Fairfax's largest equity holding. In 2024, the market value of Fairfax's stake increased by $665 million. It is up $2 billion over the past 4 years.

Eurobank began paying a dividend in 2024. The payment to Fairfax was $126 million.

In 2024, Eurobank delivered a total return to Fairfax of $784 million (increase in MV of $658 million + dividend of $126 million). This is a total return of 35% (compared to 2023YE market value).

In late 2024, Eurobank announced that it would taking Hellenic Bank private. Hellenic Bank is the second largest bank in Cyprus. Greece is expected to have one of the better performing economies in Europe. The is a very good set-up for Eurobank.

Fairfax: Performance of Eurobank Stock				Annual Change	
	Stock Price		MV of	in Market Value	
	Euro	US$	Position	$ mn	%
Dec 31, 2020	€ 0.579	$0.711	$900	n/a	n/a
Dec 31, 2021	€ 0.891	$1.014	$1,284	$384	43%
Dec 31, 2022	€ 1.055	$1.132	$1,433	$150	12%
Dec 31, 2023	€ 1.610	$1.777	$2,250	$816	57%
Dec 31, 2024	€ 2.230	$2.297	$2,908	$658	29%
4-Year Gain in Market Value for Fairfax				**$2,008**	**223%**
Dividend Payment 2024				$126	
Fairfax Carrying Value (Sept 30, 202			$2,385	$523	MV > CV
Shares owned by Fairfax		1,266	million		

Context: The total equity portfolio delivered another solid year of performance for Fairfax in 2024

Fairfax's equity portfolio had an average size of about $19 billion in 2024. Fairfax's two largest investments, Eurobank and FFH-TRS, represent about 26.5% of the total equity portfolio. In 2024, these two investments on their own delivered a total return to Fairfax of $1.7 billion ($784 + $914 million) = 8.9% return on the total average equity portfolio of $19 billion. The remaining equity holdings (73.5%) also performed well for Fairfax (on balance). Bottom line, Fairfax's total equity portfolio delivered another solid year of results in 2024.

5.) Asset sale - Stelco

Asset sales are an important tool in Fairfax's capital allocation toolkit.

Why sell an asset?

Sometimes another company - who is willing to pay up - values an asset at a much higher value than you do. This is what happened in 2024.

Taking advantage of the consolidation happening in the North American steel industry, Stelco was sold to Cleveland-Cliffs at a nosebleed-high price. The timing of the sale was perfect - President-elect Trump is threatening to impose blanket 25% tariffs on Canada, which would hurt the business of a Canadian steel producer like Stelco.

The sale of Stelco to Cleveland-Cliffs closed on November 1, 2024.

What kind of a return did Fairfax generate from its 6-year investment in Stelco?

It must have been terrible… After all, only an idiot would invest in a steel producer. That 'investment' has dogs with fleas written all over it. Fairfax needs to get with the program and stop investing in shit companies like Stelco. Right?

Well, before we jump to any conclusions, sometimes it helps to actually look at the numbers/facts. So, let's do that.

In November 2018, Fairfax invested $193 million in Stelco. Over the past 6 years, Fairfax earned a total return of $544 million from its investment in Stelco, or 282% = 6-year CAGR of 25%. Outstanding.

When they report Q4, 2024 results, Fairfax is expected to book an investment gain of $366 million (pre-tax) from the sale of Stelco.

The sale of Stelco is reminiscent of when Fairfax sold Resolute Forest Products in 2022 - at the peak of the lumber cycle - also for a nosebleed-high price. Over the years, asset sales have delivered considerable value to Fairfax and its shareholders.

Fairfax - Estimate of Total Return on Investment in Stelco					
December 27, 2024	**Transaction**	**Share**	**Total Value**		
	Date	**Price C$**	**C$ m**	**US$ m**	
Initial investment in Stelco	Nov 2018	$20.50	$267	$193	
Proceeds sale of Stelco shares	Nov 2024	$60.00	$780	$561	
Increase in market value since inception (Nov 2018)				**$368**	**191%**
Regular dividends received since 2018				$54	
Special dividends received since 2018				$68	
Cleveland Cliffs shares received	13 x .454	5.9	$9.26	$55	
Total return on investment from inception (Nov 2018)				**$544**	**282%**
		6 year CAGR (US$)		**25%**	

6.) Meaningfully grow another income stream - 'non-insurance consolidated companies'

Fairfax has 5 income streams that flow through to earnings:

- Underwriting profit
- Interest and dividend income
- Share of profit of associates
- Non-insurance consolidated companies
- Gains from investments (realized and unrealized)

Of the 5 income streams, 'non-insurance consolidated companies' is by far the smallest. However, over the past 3 years, Fairfax has been materially adding to this group of holdings.

- 2022: Took Recipe private and significantly increased their stake in Grivalia Hospitality.
- 2023: Purchased Meadow Foods (UK).
- 2024: Purchased Sleep Country and significantly increased their stake in Peak Achievements.

In 2025, like a coiled spring getting released, we should see earnings from non-insurance consolidated companies grow significantly. This will give Fairfax another large and growing income stream.

From 2019 to 2023, income from 'non-insurance consolidated companies' averaged about $24 million per year. 2024 is estimated to come in at about $170 million. My current estimate for 2025 is $300 million.

Details of two of Fairfax's large equity investments in 2024:

Sleep Country - new purchase / take private

- On October 1, 2024 Fairfax acquired Sleep Country for purchase consideration of $880.6 million (Cdn$1.2 billion). The purchase consideration was made up of two components: cash of $562.7 million and new non-recourse borrowings of $317.9 million. Sleep Country is a Canadian specialty sleep retailer with a national retail store network and multiple e-commerce platforms.

Peak Achievements - took out partner Sagard.

- On September 30, 2024, Peak announced that Fairfax had bought out partner Sagard. The purchase will see Fairfax will double their ownership stake in Peak from 42.6% to 85.2%. It appears Fairfax paid total consideration $325 million for Sagard's 42.6% stake. This values Peak at $763 million. We will get details when Fairfax reports 2024 year end results. From an accounting perspective, Peak will shift from an associate to a consolidated holding. Peak's stable of brands includes Bauer Hockey, Cascade Lacrosse and Maverik Lacrosse.

7.) Total investment portfolio per share continues to grow mid-teens

Fairfax's total investment portfolio is estimated to finish the year at a record $70 billion, or $3,226 per share. Year-over-year, the increase in the total investment portfolio is 8.1%. On a per share basis, the increase is 14.6%.

Over the past 5 years, Fairfax has increased the per share size of its investment portfolio at a CAGR of 17.3%.

Fairfax Investment Portfolio (Fixed Income and Equities)

	Total		Per Share		YE
	$b	%	$	%	Shares
2019	$39.0		$1,455		26.8
2020	$43.2	10.8%	$1,649	13.3%	26.2
2021	$53.0	22.7%	$2,218	34.5%	23.9
2022	$55.5	4.7%	$2,382	7.4%	23.3
2023	$64.8	16.7%	$2,816	18.2%	23.0
2024	$70.0	8.1%	$3,226	14.6%	21.7
5-yr Change	$31.0	79%	$1,771	122%	
5-yr CAGR		12.4%		17.3%	

How much is Fairfax earning on its investment portfolio?

My estimate is Fairfax earned about 7.9% on its average total investment portfolio in 2024. The average return was 10.2% in 2023. Of interest, from 2016 to 2022, Fairfax earned an average return of about 4.9% on its total investment portfolio. The big increase in the rate of return of Fairfax's investment portfolio is being driven by much higher bond yields and a much better performing (higher quality) equity portfolio. Importantly, the big increase in return looks sustainable.

Moving forward, 7.3% to 7.5% looks like a reasonable number to use as a 'normalized' rate of return for Fairfax's investment portfolio. Note, for equity holdings, this includes 'excess of fair value over carrying value' for associate and consolidated holdings.

- Fixed income = 5%
    - The 10-year US treasury is currently yielding 4.8%
- Equities = 12.5%
    - The quality (measured by earnings power/management) of Fairfax's equity portfolio (in aggregate) has improved markedly over the past 5 years. This bodes well for future returns.

Fairfax - Total Investment Portfolio
Estimate of 'Normalized' Rate of Return

	Total	Estimated Return	
	$b	%	$b
Fixed Income	$49.0	5.0%	$2.5
Equities	$21.0	12.5%	$2.6
Total Portfolio	$70.0	7.3%	$5.1

Sequence of returns matters.

In 2024, Fairfax's total investment portfolio per share grew to a record $3,226/share. At the same time, Fairfax is earning a very high rate of return on its investment portfolio. Fairfax is earning a high rate of return at exactly the right time.

8.) Increasing the amount of Fairfax's total earnings that accrue to common shareholders

Takeout of minority partners in insurance subsidiaries

Not all of Fairfax's earnings today accrue to common shareholders. This is primarily because Fairfax has minority partners in some of its P/C insurance companies. However, in recent years, given its robust earnings, Fairfax has been slowly and methodically buying out its insurance partners. These transactions increase the amount of Fairfax's earnings that go common shareholders.

In three separate transactions in 2024, Fairfax spent a total of $674.7 million to increase its ownership of its insurance businesses. These are solid uses of cash for Fairfax. The transactions are very low risk (obviously, Fairfax knows the assets) and they offer a solid rate of return (whatever was

being paid to minority partners). Taking out the minority partners also simplifies Fairfax's structure and makes the company easier to understand.

Bottom line, these transactions increase the amount of Fairfax's earnings that accrue to common shareholders - it increases their economic ownership of the company.

Gulf Insurance Group - 2 transactions:

- Increased ownership from 90% to 97.1% at a cost of $126.7 million.
- Annual payment of $165 million to Kipco (payment one of four, as part of its takeout in 2023).

Brit Insurance:

- On December 13, 2024, Fairfax announced that it had increased its ownership in Brit from 86.2% to 100% at a cost of $383 million.

As the hard market slows, these types of transactions are an elegant way for Fairfax to continue to grow its insurance business - the part that accrues to common shareholders.

9.) Increase in excess of FV over CV

Reported numbers matter a great deal. But what we care about more than accounting results is economic performance over time - because this gives us a better understanding/insight/estimate of that elusive concept called 'intrinsic value'.

Over the past 5 years, Fairfax has been materially growing out its collection of associate/consolidated equity holdings. Today, Fairfax has more than $21 billion in equity investments and more than $11 billion (53%) are now associate/consolidated holdings.

The economic value (market/fair value) of these holdings has been increasing faster than their accounting or 'carrying value.' Fortunately, Fairfax helps us connect the dots when they report results. One example is the company's disclosures for 'excess of fair value over carrying value' for non-insurance associate and consolidated holdings.

In 2019, the fair value and carrying value for associate/consolidated equity holdings were both about $4 billion - the excess was a tiny $18 million. Nothing to see here.

At September 30, 2024, for associate/consolidated equity holdings the fair value was $10.1 billion and the carrying value was $8.1 billion. The excess had ballooned from $18 million in 2019 to $1.9 billion ($86/share pre-tax) at September 30, 2024. Fairfax's reported book value was understated by this amount.

Over each of the past 4.75 years, excess of FV over CV has increased by an average of about $400 million per year ($18/share pre-tax). **Fairfax's reported earnings each of the past 4.75 years have been understating the true economic performance of the company.**

The good news is much of this value will end up in EPS and book value - but it will take time. Fairfax could sell an asset, like they did with Stelco in Q4, 2024, and this will crystallize the value (that is hiding in plain sight). Fairfax could also do something that requires an asset to get re-valued (closer to market/fair value) - we might see this with Peak Achievement and Fairfax's takeout of partner Sagard in Q4, 2024.

My current estimate is Fairfax will earn about $160/share in 2024. This excludes excess of FV over CV. Over the first 9 months of 2024, excess of fair value over carrying value increased $900 million ($41/share pre-tax). Bottom line, the performance being generated by Fairfax in 2024 is much better than what is reported by simply looking at reported earnings per share numbers.

This also means Fairfax's reported ROE is also understated.

Investors need to keep this in mind when valuing the company and evaluating the performance of the management team.

Excess of Fair Value over Carrying Value						
Associates and Non-insurance Consolidated Holdings						**30-Sep**
Excluding Re/insurance	**2019***	**2020**	**2021**	**2022**	**2023**	**2024**
Fair Value (FV)	$4,023	$4,321	$6,068	$6,737	$8,355	$10,063
Carrying Value (CV)	$4,005	$4,984	$5,721	$6,427	$7,349	$8,142
Excess of FV over CV	$18	-$663	$347	$310	$1,006	$1,921
Annual change in excess of FV over CV	**$117**	**-$681**	**$1,010**	**-$37**	**$696**	**$915**
* For 2019 consolidated holdings are an estimate.						

10.) Significant share buybacks

In 2024, Fairfax got much more aggressive on the share buyback front. In 2024 it appears Fairfax reduced effective shares outstanding by 1.3 million, or 5.7%, to 21.7 million. The cost was likely $1.53 billion, or an average of $1,172 per share.

From a capital allocation perspective, buying back stock was, by far, Fairfax's largest 'use of cash' in 2024.

The shares were purchased at a very attractive price. My estimate is Fairfax book value will finish 2024 at about $1,085/share. If we include excess of fair value over carrying value for consolidated and associate equity holdings (this is not captured in book value), Fairfax has been able to buy back shares in 2024 at an average price that is slightly more than 1 x estimated 'adjusted' 2024 year-end book value. That is very cheap for a high-quality P/C insurance company.

Over the past 7 years, Fairfax has reduced effective shares outstanding by 6.05 million or 21.8%. The cost was $3.83 billion and the average price paid was $632 per share. Share repurchases over the past 7 years have delivered exceptional value to Fairfax and its shareholders.

As Warren Buffett teaches us, it is the per share metrics that matter. The effect of materially reducing effective shares outstanding is to amplify the positive benefits/effects of many of the items in our Top 10 list.

Here is what Warren Buffett had to say in his 1980 shareholder letter about a company using its retained earnings to buy back stock:

> "(We can't resist pausing here for a short commercial. **One usage of retained earnings we often greet with special enthusiasm when practiced by companies in which we have an investment interest is repurchase of their own shares. The reasoning is simple: if a fine business is selling in the market place for far less than intrinsic value, <u>what more certain or more profitable utilization of capital can there be</u> than significant enlargement of the interests of all owners at that bargain price?** The competitive nature of corporate acquisition activity almost guarantees the payment of a full - frequently more than full price when a company buys the entire ownership of another enterprise. **But the auction nature of security markets often allows finely-run companies the opportunity to purchase portions of their own businesses at a price under 50% of that needed to acquire the same earning power through the negotiated acquisition of another enterprise.**)" *Warren Buffett – 1980 Letter to Shareholders*

As a result of buybacks in 2024, Fairfax shareholders now own 5.7% more of a company that has also substantially increased in value in 2024.

(Note: estimate for 2024 of effective shares outstanding of 21.7 million = 22 million at Sept 30, 2024 – an estimated 0.292 million shares purchased and retired in Q4 at an average price of $1,380.)

Fairfax - Total Reduction In Share Count Last 7 Years

US$ Date	Effective Shares Outstanding	Share Reduction million	Share Reduction %	Avg Cost Per Share	Total Cost $b
2017	27.8				
2018	27.2	0.51	1.9%	$509	$0.262
2019	26.8	0.41	1.5%	$464	$0.188
2020	26.2	0.66	2.4%	$298	$0.195
2021	23.9	2.31	8.8%	$490	$1.132
2022	23.3	0.54	2.3%	$509	$0.275
2023	23.0	0.32	1.4%	$764	$0.246
2024E	21.7	1.31	5.7%	$1,172	$1.530
Total		**6.05**	**21.8%**	**$632**	**$3.83**
7-Yr Avg			3.1%		

Significant dividend increased

In January 2024, Fairfax increased their dividend from $10 to $15 per share.

- Average stock price = $1,150
- Dividend yield = 1.3%
- Amount spent by Fairfax = $363 million

The dividend had been $10 since 2011. The increase in the dividend was important symbolically - it signaled to investors that Fairfax had indeed turned the corner as a company.

From Fairfax's Press Release Jan 3, 2024:

> "Given Fairfax's substantial growth since it inaugurated a US$10 per share annual dividend 14 years ago, and given Fairfax's current position of foreseeing strong earnings for the next few years based on insurance company underwriting income, locked-in interest and dividend income and income from associates, we felt it was appropriate to raise our annual dividend this year to US$15 per share, and we believe that this should be a sustainable level," said Prem Watsa, Chairman and Chief Executive Officer of Fairfax. *Fairfax press release January 3, 2024*

Total payout yield in 2024:

- Buybacks = 5.7%
- Dividend = 1.3%
- Total payout yield = 7.0% in 2024. Significant.

Miscellaneous

Increase in the effective tax rate:

- Fairfax's tax rate has ticked higher in 2024. Where Fairfax's new 'normalized' tax rate settles once all the dust has settled will be something to monitor moving forward.

From Fairfax's Q3, 2024 conference call:

> Question - Tom MacKinnon: A question with respect to the tax rate - you know, it used to track kind of in the low 20s, maybe, and now it's been sort of closer to 25%. How should we be thinking about that going forward?
>
> Answer - Jen Allen: … lot of moving parts on tax. I think trying to normalize what that effective tax rate would be is a little difficult, but I would say it is going to be elevated from prior year. If you kind of put in maybe a 22% to a 25%, you're probably going to be in the ballpark where we'll land.

Insurance:

- Digit Insurance - In May of 2024, Digit successfully completed its IPO (at 274/share). At Dec 31, the company had a market value of $3.4 billion (316.55/share).
- Ki Insurance - Ki was launched as an insurance startup by Brit in 2020. Blackstone is an equity partner. It is being reported that Ki has now achieved critical mass and is large enough that beginning in 2025 it will operate as a standalone company within Fairfax.

Investments:

- Bangalore International Airport (BIAL) - In December 2024, at a cost of $250 million, Fairfax India increased its equity interest in BIAL from 64% to 74%. BIAL is the third largest and one of the fastest growing airports in India.
- AGT Food Ingredients - In November 2024, AGT sold its shoreline rail and bulk handling infrastructure to GCM Grosvenor. From the news release: "This sale returns significant capital to AGT…" We should get the financial details resulting from this sale when Fairfax reports year-end results.

Increase in debt:

- Fairfax has always used a modest amount of debt to grow shareholder value over the long term.
- As strong earnings have been generated in 2024 (and shareholders' equity has increased), Fairfax has also taken on more debt.
- Not a concern. But something to continue to monitor.
- Preferred share holdings were reduced by $250 million. Funded with C$ borrowings (average interest rate of about 5%).

Runoff:

- Continues to see sizeable adverse prior year reserve development top-ups each year, with the majority typically happening in Q4. Total amount was $259.4 in 2023. "…principally related to latent hazard claims stemming from recent incremental increases in litigation activity and its associated costs." From Fairfax's 2023AR. Not a concern (it is what it is). But it is something to continue to monitor.

Personnel Changes:

In 2024, there were some good examples of well executed succession planning at Fairfax – more responsibility slowly being transferred to the next generation of leaders.

- Prem Watsa steps away from conference calls: Beginning with the Q1 call in May, 2024, conference calls are now handled by the trio of Peter Clarke (President and COO), Jen Allen (CFO) and Wade Burton (President and CIO, Hamblin Watsa).
- In June 2024, Gobi Athappan was appointed Chairman and CEO of Fairfax Asia (following the passing of his father, Ramaswamy Athappan).
- In June 2024, Ben Watsa was appointed Chairman of Fairfax India, replacing Prem Watsa, who will continue to sit on the board of Fairfax India.
- In June 2024, Gopal Soundarajan was appointed CEO of Fairfax India, replacing Chandran Ratnaswami, who becomes Executive Vice Chairman of Fairfax India.

2025 Top 10 List: A Compounding Machine

January 3, 2026

In 2025, Fairfax quietly delivered another exceptional year. That makes five in a row, and that matters. Fairfax is delivering consistent, very strong performance.

What happened?

This is where the story gets interesting. No one thing. It was everything: insurance, investments and capital allocation. It was Fairfax's people (culture) and their business model.

What we learned in 2025 is Fairfax doesn't have to do anything spectacular to deliver spectacular results. That is what an exceptional business looks like.

Fairfax has re-emerged as a compounding machine. Importantly, this version of Fairfax is much better than past versions: earnings streams are more balanced and higher quality, and the company is more experienced and mature. It's like Fairfax has grown up right in front of us - after 40 years of refinement, Fairfax has figured out how to best exploit the model pioneered by Buffett at Berkshire Hathaway – with P/C insurance at its core.

Fairfax today looks like a star athlete entering their prime - performing to their full potential. It has become fun to own and follow. That is the definition of a high-quality business.

Financial Performance Snapshot

Earnings, Book Value and ROE

Fairfax is on pace to deliver record earnings in 2025.

Earning

- Accounting EPS estimate: ~ $200 per diluted share (my guess today)
- Economic EPS estimate: ~$240 per diluted share (conservatively calculated)

Book Value Per Share

- 2024 YE: $1,060
- 2025E: $1,255 (current)
    - Increase: $195 per share

Return on Equity

- Accounting ROE (rough): ~17.3%
- Economic ROE: ~20%+

The accounting change in BVPS and ROE does not include an additional ~$40 per share of economic earnings. Fairfax's book value is materially understated.

Share Price Performance

In 2025, Fairfax's share price increased:

- +31% (C$)
- +38% (US$)

For comparison:

- S&P 500: +16%
- S&P/TSX: +28%

Five-Year Performance

- Fairfax: +503% (C$) | +461% (US$)
- S&P 500: +82%
- S&P/TSX: +82%

Fairfax has outperformed market averages every year over this period.

Fairfax's Share Price: 5-Year Performance Versus the Market Averages

Ex Dividends	Fairfax C$	Increase %	Fairfax US$	Increase %	S&P500 US$	Increase %	S&P/TSX C$	Increase %
Dec 31, 2020	$434		$341		3,756		17,433	
Dec 31, 2021	$622	43%	$492	44%	4,766	27%	21,223	22%
Dec 31, 2022	$802	29%	$594	21%	3,840	-19%	19,385	-9%
Dec 31, 2023	$1,223	52%	$921	55%	4,770	24%	20,958	8%
Dec 31, 2024	$2,000	64%	$1,390	51%	5,882	23%	24,728	18%
Dec 31, 2025	$2,616	31%	$1,913	38%	6,845	16%	31,713	28%
5-Year Total Increase		503%		461%		82.3%		81.9%
5-Year CAGR		43.2%		41.2%		12.8%		12.7%

Dividend

Fairfax paid a dividend of $15 per share in 2025.

Valuation Versus Peers

Relative to a group of high-quality P/C insurance peers, Fairfax:

- Has dramatically outperformed on total shareholder return and BVPS growth over the past six years
- Trades at the lowest valuation, on both P/BV* and P/E

The best performer remains available at the cheapest price.

* *Important caveat:* Fairfax's BV is understated. Its economic P/BV is materially lower than the reported ~1.59x.

Peer Comparison - Summary of Key Valuation Metrics				
	6-Year CAGR TSR (1)	5.75-Year CAGR BVPS (2)	Dec 31, 2025 P/BV (3)	Dec 31, 2025 P/E (4)
Fairfax	27.2%	17.1%	1.59	9.6
WR Berkley	16.1%	10.2%	2.72	15.5
Travelers	14.8%	5.9%	2.05	11.9
Berkshire B	14.2%	11.4%	1.55	17.8
Intact Fin (C$)	14.2%	11.9%	2.77	16.7
Chubb	13.5%	7.2%	1.71	12.9
Markel	11.1%	10.5%	1.50	14.2
(1) Total Shareholder Return - share price increase + dividends Dec 31, 2019 to Dec 31, 2025				
(2) 5.75 CAGR - Dec 31, 2019 to Sept 30, 2025				
(3) Share price at Dec 31, 2025; BV at Sept 30, 2025				
(4) Share price at Dec 31, 2025; analyst est at Dec 12, 2025				

The Fairfax Business Model: What's Driving Results?

To understand 2025, it helps to break Fairfax into its core engines:

- Insurance operations (net premiums written and underwriting profit)
- Investments (fixed income and equities)
- Capital allocation (reinvesting, harvesting, and buybacks)
- Final observations (ratings agencies, currency, book value)
- Personnel changes (succession and bench strength)

Insurance Operations

1. The Top Line: Net Premiums Written

The hard market that began in late 2019 is moderating, and top-line growth is slowing.

2025 Estimate

- Net premiums written (NPW): $26.6B (+5%)

Six-Year Growth (since the start of the hard market)

- Total growth: $13.3B (+100%)
- CAGR: 12.3%

These are solid numbers – but total dollars are not what matter most to shareholders. Per-share results do.

Per-Share Metrics

- 2025 NPW per share (estimate): $1,265 (+9%)
- Six-year per-share growth: $770 (+156%)
- Per-share CAGR: 16.9%

Measured per share, Fairfax's insurance business has been growing like a weed. Over the past six years, it has effectively been a growth company.

Early in the hard market (2021–2022), top-line growth was strongest. In later years, growth has slowed—but aggressive buybacks materially accelerated per-share results.

Fairfax has delivered a textbook example of how to manage the hard-market phase of the insurance cycle.

Fairfax: Managing the Market Cycle				
	Net Premiums Written			
	$ b	YOY Change	Per Share	YOY Change
2019	$13.3	n/a	$495	n/a
2020	$14.7	11%	$562	14%
2021	$17.8	21%	$745	33%
2022	$22.3	25%	$957	28%
2023	$22.7	2%	$987	3%
2024	$25.3	11%	$1,166	18%
2025E	$26.6	5%	$1,265	9%
6-Year	**$13.3**	**100%**	**$770**	**156%**
6-Yr CAGR		**12.3%**		**16.9%**

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2. The Bottom Line: Underwriting Profit

Underwriting performance determines the value of an insurance business.

2025 Estimate

- Combined ratio: ~93.5%
- Underwriting profit: ~$1.7B
- Underwriting profit per share: ~$80

Six-Year Growth

- Underwriting profit per share: +443%

Drivers:

- Strong NPW growth (16.9% per-share CAGR)
- Structural improvement in combined ratio
- Aggressive share buybacks (~20% reduction in shares)

Fairfax operates a high-quality, consistently profitable P/C insurance franchise – and that franchise is very valuable.

Fairfax: Managing the Market Cycle			
		UW Profit	
	CR	Profit	Per
	%	$ m	Share
2019	96.9	$395	$15
2020	97.8	$308	$12
2021	95.0	$801	$34
2022	94.7	$1,105	$47
2023	93.2	$1,522	$66
2024	92.7	$1,791	$83
2025E	93.5	$1,679	$80
6-Yr Increase		**$1,285**	**$65**
		326%	**443%**
6-Yr Avg	**94.8%**		

An underwriting profit means Fairfax is being paid to hold float—estimated at $37B at YE 2025—which it can then invest for its own benefit.

Investments

After strong years in 2023 and 2024, Fairfax is having a blowout investment year in 2025.

2025 Investment Snapshot

- Average investments: ~$72B
- Estimated total return: ~$7.56B (~10.5%)

Breakdown by Asset Class

- Fixed income: ~$2.92B (5.1% yield + gains)
- Equities & other: ~$4.64B (20.1% return)

This estimate includes the annual change in excess of fair value over carrying value for non-insurance associate and consolidated holdings, which is not captured in accounting earnings. Even so, the 10.5% return figure remains conservative.

How did Fairfax's investments perform in 2025?				
Nov 17, 2025	Investments		Return	
	Split	$b	$b	%
Bonds - Interest income	68%	$49.0	$2.50	5.1%
Bond gains			$0.42	0.9%
Equities (including gains)	32%	$23.0	$4.64	20.1%
Average investments		**$72.0**	**$7.56**	**10.5%**

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3. Fixed income – Interest Income

- Interest income (2025E): $2.46B (record)
- Average yield: ~5.1%

Drivers

- Growth in the fixed-income portfolio from ~$46.5 (2024) to ~$50 billion (2025)
- First-mortgage partnership with Kennedy Wilson increased by $800M (9 months)
    - Portfolio grew from $4.8B to $5.6B (Sept. 30, 2025)
- Blizzard Vacatia investment ($835 million).

Five-Year Growth

- Interest income per share: +393%

Drivers:

- Larger portfolio.
- Much higher interest rates
- Aggressive share buybacks (+20% reduction in shares)

Interest income has become Fairfax's largest income stream – and it's a high quality source of earnings.

Fairfax - 5-Yr Change in Interest Income				Fixed	YE Eff.
	Interest Income			Income	Shares
	$ (M)	Yield	/ Share	$ (B)	M
2021	$568	1.7%	$24	$36.8	23.9
2022	$874	2.3%	$37	$38.9	23.3
2023	$1,841	4.4%	$80	$45.3	23.0
2024	$2,341	5.1%	$108	$46.5	21.7
2025E	$2,464	5.1%	$117	$50.0	21.0
5-Yr Increase	**$1,896**		**$94**		
	333%		**393%**		

Equities

At December 31, 2025, Fairfax's Fairfax equity portfolio was valued at approximately $26 billion, split roughly 60% public and 40% private.

Fairfax runs a concentrated portfolio. Focusing on the 10 largest publicly traded holdings provides a fact-based view of what is happening across a significant portion of the equity book.

4. Publicly Traded Equities

Top 10 Holdings – 1-Year Return

- Total shareholder return: $4.3 billion (47%)

No, that is not a typo. Yes, that is outstanding performance.

For context, Fairfax's common shareholder's equity was $23 billion at 2024 YE.
Generating ~$4.3 billion (pre-tax) in gains from just 10 holdings is a big deal.

Notes:

- The top 10 holdings are ~50% of the equity portfolio
- This data is not cherry picked - we didn't just include the good stuff.
- The performance is broad based: 7 of 10 holdings are up +30%
- The group is not expensive: the strong performance is not due to 'euphoria'
- Much of the gain is not yet captured in the accounting results

Importantly, each of the holdings (as a whole) are well managed, not expensive with solid prospects.

You are probably thinking this is just a one-year wonder. It isn't.

Fairfax Top 10 Publicly Traded Equity Holdings + FFH-TRS					
1-Year Performance Estimate		2025	2024	Change in MV	
		Dec 31	Dec 31	$ (M)	%
1	Eurobank	$4,739	$2,719	$2,020	74%
	Eurobank Dividends			$207	
2	FFH-Total Return Swap	$3,358	$2,448	$910	37%
3	Orla Mining	$1,034	$483	$551	114%
	Orla Mining Position Sold	$316	$139	$178	128%
4	Fairfax India	$996	$922	$74	8%
5	Metlen	$612	$413	$199	48%
6	Thomas Cook India	$497	$689	-$192	-28%
7	Commercial Indust. Bank	$466	$333	$133	40%
8	Foran Mining	$448	$334	$114	34%
9	John Keells	$312	$347	-$35	-10%
10	Dexterra	$266	$171	$96	56%
	Total Shareholder Return	**$13,045**	**$8,997**	**$4,255**	**47%**
	Per Fairfax Diluted Share			**$184**	

10 Most Impactful Holdings Over Last 5 Years (Largest Drivers of TSR)

As a reminder, we are only looking at publicly traded equities. And for this analysis we are looking at the 10 holdings that delivered the biggest increase in total shareholder return over the past 5 years. This allows us to include positions that were sold. And positions that have been added.

- Total Shareholder return: $10.1 billion (242%)
- 4.65-year weighted average CAGR ~30.6%

Again, not a typo.

Are you surprised?

For context, Fairfax's common shareholders' equity at 2020YE was $12.5 billion. Generating $10.1 billion (pre-tax) in gains from 10 publicly traded equity holdings is a big deal. (Of course, this is just one part of what has been happening 'under the hood' at Fairfax in recent years.)

Details:

- Two holdings were sold at peak valuations: Stelco (steel consolidation mania late in 2024) and Resolute Forest Products (top of the lumber cycle in 2022).
- Two positions were initiated at very low valuations: Orla Mining (2022 to 2024), a gold producer, and Foran Mining (2021 to 2025), a copper start-up.
- Other positions were opportunistically added to: Fairfax India (2022), Thomas Cook India (2022) and Metlen (2022 and 2025).
- Fairfax has been patient with other positions: Eurobank, FFH-TRS and CIB.

Over the past 5 years, Fairfax has been very busy with its total equity portfolio - watering its flowers and pulling its weeds (fixing/exiting poorly performing legacy holdings). It has also been very opportunistic, exploiting volatility - buying low and selling high. Fairfax is partnering with outstanding CEO's/entrepreneurs. Fairfax has been quietly putting on a clinic on how to do active management well – with the performance of the equity portfolio being just one example.

Built over the past 40 years, Fairfax has skills sets (and relationships) that appear to be the perfect match for the current economic/macro environment. For 5 years they have been feasting. And they are licking their chops right now… patiently waiting for Mr. Market to serve up more wonderful investment opportunities that fall into their circle of competence.

Fairfax - Publicly Traded Equities - Estimating 5-YR Total Shareholder Return (TSR) - Most Impactful Holdings							
For 5-Year Period 2021 to 2025		Market Value		Change MV + Div			
		2025 (1)	2020 (2)	Total Return		Time-	
Updated: Dec 31, 2025		Dec 23	Dec 31	$ (M)	%	frame	Comments
1	Eurobank	$4,955	$891	$4,396	493%	5-YR	
2	FFH-TRS	$3,642	$732	$2,910	397%	5-YR	Notional as MV too conservative
3	Orla Mining	$1,355	$511	$845	165%	~2-YR	Initiated 2022; added 2024
4	Fairfax India	$996	$566	$540	95%	5-YR	Added 2022
5	Stelco	$561	$232	$505	218%	~4-YR	Sold Nov 2024
6	Resolute Forest Products	$626	$200	$426	213%	~2.5-YR	Sold July 2022
7	Metlen	$614	$283	$387	137%	~3-YR	Added 2022 & 2025
8	Thomas Cook India	$559	$220	$339	154%	5-YR	
9	Foran Mining	$448	$233	$215	92%	2.5-YR	Initiated 2021; added 4 x
10	Commercial Industrial Bank	$466	$289	$177	61%	5-YR	
	Top 10 - Total Return	**$14,222**	**$4,157**	**$10,065**	**242%**	**4.65-YR**	Weighted average
		End	Start	TSR	**30.6%**	**CAGR**	
	(1) Market value at Dec 23, 2025 or when position was sold.						
	(2) Market value at Dec 31, 2020, or when position was purchased.						

Narrative

The narrative is Fairfax are not very good equity investors. Yes, this is complete crap.

The next time you talk to an investment professional about Fairfax - and they say they do not like their equity portfolio - ask them how the top holdings have actually performed over 1- and 5-year periods. My guess is they will have no idea. **But when it comes to Fairfax knowing nothing and having a strong opinion usually go hand-in-hand.** Crazy but true.

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5. Non-Insurance Consolidated Companies (NICC)

Let's pivot and look at some of Fairfax's private holdings. NICC includes Recipe, Sleep Country, Peak Achievement, Grivalia Hospitality, AFT Food Ingredients, Meadow Foods and Dexterra.

Fairfax has 5 income streams that flow through to earnings. NICC is the smallest. But that is changing. Fairfax has been investing heavily in recent years in NICC and the income stream is inflecting higher.

Pre-Tax Income*

- 2020 to 2023 average per year: $12M
- 2024: $212M
- 2025E: $360M
- 2026E: $450M

Fairfax has created a new, meaningful fifth income stream:

- Not correlated with P/C insurance
- With significant reinvestment opportunities
- Rapidly scaling

* Pre-tax income (loss) before interest expense; excludes interest and dividends, share of profit (loss) of associates and net gains (losses) on investments.

Capital allocation

Capital allocation is a competitive advantage of Fairfax's business model.

6. Investments

P/C Insurance Investments

Fairfax continued to invest to grow its insurance business:

- Albingia SA (33%): $216 million (closed in May)
- Gulf Insurance Group: $165 million (payment 2 of 4).
- Eurobank Cypress (45%): $69 (expected to close in Q1 2026)

Buyouts of minority partners at Allied World (16.6%) and Odyssey (9.9%) remain future catalysts.

Equity Investments

Watering Flowers: Buying More of What it Already Owns

Metlen: $119M (March) - 2.75M shares at €40 per share
- increased ownership from 9.2 to 11.95M shares.

Recipe (three transactions):
- $157M (Q1): took out minority partner (16%); now own 100%.
- $75M (May): take private Keg Royalty Income Fund. Now control Keg banner.
- Purchased rights to Olive Garden Canada + 8 locations (July)

Foran Mining: $53M (May) – 25M shares at C$3
- Ownership increased from 96.9 to 121.9M shares.

John Keells - $18M (Sept); 230M shares at Rs 23.20/share
- Ownership increased from 4,282 to 4,512M shares.

Kennedy Wilson: take private offer (Nov) at $10.25/share (38% premium)
- Awaiting response from KW special committee (timing: 2026)

Pulling Weeds
Blue Ant reverse takeover of Boat Rocker

- Boat Rocker impairment charge of $108.6M over first 6 months.

Another example of Fairfax dealing with a poorly performing legacy holding. Solution: merge with a stronger player (and take the impairment charge).

Over the past 7 years, Fairfax has dedicated significant resources (time and money) to deal with a number of poorly performing legacy holdings (purchased 2014-2017). It looks like they might be done. The equity portfolio has been significantly upgraded.

New Investment

Blizzard Vacatia: $835 million (Jan)

- Partner with entrepreneur Caroline Shin.
- Boosted interest income by $86M

Fairfax - Summary of Investment in Blizzard Vacatia			Annual	
January 2025	Total	Interest	Interest	
Description	**US$**	**Rate**	**Income**	**Comments**
Senior Secured Note - 7-Year	$365	9.5%	$35	
Mortgage Warehouse Loan	$170	8.4%	$14	Mortgage backed (SOFR + 4%)
Preferred Note - 5-Year	$275	13.5%	$37	Preferred shares
Total	**$810**	**10.6%**	**$86**	
Equity	$25			Common shares
Total Fairfax Investment	**$835**			
Equity = $50 million. Funded 50% by Farifax and 50% by Caroline and her partners.				

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7. Asset Sales

Asset sales have always been an important part of Fairfax's capital allocation framework.

- Sigma (March) - $327M proceeds; 178.7M realized gain.
- Orla (December) - $316M proceeds; ~$216M gain vs. original cost (estimate).
- Praktiker - (July) - Greek home improvement retailer. No details disclosed.
- Eurolife's life insurance business: $945M proceeds; expected to close in Q1 2026 and result in ~$250M pre-tax gain.

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8. Share buybacks

Fairfax remained aggressive in 2025.

2025 (estimate)

- Shares repurchased: ~670,000
- Cost: ~$1.1B (at ~$1,625 per share)
- Shares outstanding at year end: ~21M

Five-Year Impact

- Shares reduced: 20%
- Cost: $4.3B
- Average price: $833 per share

At 2025 YE, shares closed at $1,908.
At September 30, 2024, book value was $1,204.

Over the past five years, a significant number of shares were repurchased at very attractive prices – delivering enormous value to long-term shareholders (and reinforcing that Fairfax is being run for owners).

Fairfax - 5-Year Reduction In Shares Outstanding

Year	Effective Shares YE (M)	Share Reduction M	Total Cost US$ B	Avg Cost Per Share
2020	26.2	n/a	n/a	n/a
2021	23.9	2.31	$1.132	$490
2022	23.3	0.54	$0.275	$509
2023	23.0	0.32	$0.246	$764
2024	21.7	1.34	$1.574	$1,179
2025E	21.0	0.67	$1.086	$1,625
Totals		**5.18**	**$4.313**	**$833**
		20%		

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9. Final Observations

Ratings Agency Upgrades

In 2025, Fairfax and its P/C insurance subsidiaries were upgraded by both AM Best and S&P Global for the second time in three years – the result of strong performance and improving overall financial strength.

Currency Tailwind

Given Fairfax's significant international exposure (insurance and investments), currency has been a headwind in recent years (strong US$). In 2025, currency flipped to a tailwind (weak US$). This gain should be reflected in OCI and book value (net of any hedging done by Fairfax).

Book value is losing its relevance for investors

Buffett banished BV Berkshire Hathaway in his shareholder letter in the 2018AR. Fairfax is not there yet, but it is moving in that direction.

Fairfax's economic results have exceeded accounting results for years and the gap in 2025 is especially wide. A key reason: more than 50% of the equity portfolio consists of associate and consolidated holdings. Carrying value for many of these holdings is much lower than their market value. This hidden value will get surfaced in the coming years (boosting accounting results like EPS, BV and ROE).

Fairfax is helping investors. They publish the excess of FV over CV for non-insurance associate and consolidated holdings with their accounting results.

- Eurobank alone represents ~$100 per share of hidden value.

This helps explain why Fairfax has continued being very aggressive with buybacks at 1.5 x BV. And why they continue to hold the FFH-TRS position. Management knows book value is understated – and the stock is even cheaper than it appears.

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10. Personnel Changes

Fairfax is very good at succession planning. A slow and thoughtful transition to the next generation of leadership has been happening in recent years at all parts of the organization: insurance, investments and capital allocation. The old guard is moving into mentorship and stewardship roles while the next generation takes on operating leadership/greater responsibilities.

Appointments:

- Andy Barnard - Chairman - Fairfax Insurance Group (was President)
- Brian Young - President - Fairfax Insurance Group (was CEO Odyssey)
- Carl Overy - CEO – Odyssey
- Jennifer Allen - Chief Business Officer (was CFO)
- Amy Sherk – CFO
- Christine Magee - Fairfax Board
- Mr. Amitabh Kant - Senior Advisor

Chapter 21: What Are Others Writing?

Books and Articles on Fairfax

The Fairfax Way: Inside Prem Watsa's Secret to Lasting Success

By David Thomas

Finally, a (great) book on Fairfax!

"The Fairfax Way is a compelling chronicle of one of the great enduring business stories of our time. With clarity and insight, David Thomas reveals how Prem Watsa built a global enterprise through disciplined value investing, a decentralized management structure, and the cultivation of a singular corporate culture." —*Lawrence Cunningham, director of the John L. Weinberg Center for Corporate Governance, University of Delaware and author of The Essays of Warren Buffett and Quality Investing*

Edgepoint Wealth (January 2023)

Below is a link to a well written summary from Edgepoint Wealth of the current opportunity with Fairfax.

- Provides a concise, easy to understand history of Fairfax that bridges nicely to where the company is at today. This is not easy to do with Fairfax.
- Identifies Fairfax as a GROWTH company.

https://www.edgepointwealth.com/article/Q4-2022-EdgePoint-commentary/

Woodlock House Family Capital – The Horse Story (2019)

I love the 'horse story.' Written back in 2019, the short write up is well done and still applicable today. The author provides a nice 'rule of thumb' way to value an insurance stock.

https://www.woodlockhousefamilycapital.com/post/the-horse-story

Podcasts on Fairfax and Related Topics

Know Your Risk: International Value Investing with Asheef Lalani (Dec 2025)

Date: December 12, 2025
Host: Zach

Podcast Link: https://youtu.be/iDubMBzGu8U?si=ffARS7gpFY4lmcMa

Fairfax is discussed, beginning about the 20 minute mark

Newcomer Investor: Fairfax, Strathcona and Meg with Asheef Lalani (July 2025)

Date: July 8 and July 14, 2025
Host: Anthony Johnson

Podcast Link: https://podcasts.apple.com/ca/podcast/newcomer-investor/id1662369630?i=1000719376026

Topics discussed:
- Fairfax: 8:25 to 42:40.
- Strathcona and the Meg takeover attempt: 42:41 to 1:22:00
- The gold industry (including Orla): 1:43:00 to 2:02:50
- Strathcona and the Meg takeover attempt (July 14 update): 2:11:15

Newcomer Investor: Fairfax – Canada's Hidden Gem with Asheef Lalani (Nov 2024)

Date: November 5, 2024
Host: Anthony

Podcast Link: https://podcasts.apple.com/ca/podcast/newcomer-investor/id1662369630?i=1000675763160

Asheef does a deep dive on Fairfax Financial.

Schroders: The Value Perspective with Jamie Lowry and Ian Kelly (Nov 2023)

Date: November 20, 2023
Host: Kevin Murphy

Podcast Link: https://podcasts.apple.com/ca/podcast/the-value-perspective/id1522262586?i=1000635398400

Overview: Jamie and Ian manage the European investment book of Fairfax Financial. They provide lots of great insights into Fairfax and how Hamblin Watsa manages investments.

The Templeton Way: Ben Watsa - His Journey; Investing in India; Fairfax's Culture (2023)

Date: September 12, 2023
Host: Lauren Templeton – Sits on Board of Directors at Fairfax

Podcast Link: https://podcasts.apple.com/ca/podcast/investing-the-templeton-way/id1604395168?i=1000627607421

Overview: Ben Watsa is the son of Prem Watsa, the Chairman, CEO and founder of Fairfax. Given Fairfax is a family controlled company, and Prem is over 70 years old, Ben will have a very important role to play at Fairfax in the future. The podcast provides Fairfax shareholders with a good introduction to Ben. Topics discussed include his personal journey and investing in India.

Fairfax is discussed at the 53:45 mark: culture and family control.

The Business Brew: Fairfax is a "Fat Pitch" with Charlie Frischer and Asheef Lalani (2023)

Date: July 20, 2023
Host: Bill Brewtser

Podcast Link: https://podcasts.apple.com/ca/podcast/the-business-brew/id1540847053?i=1000621753971

Overview: Charlie is a long term Fairfax shareholder (+20 years) and Asheef is a more recent investor in Fairfax (2021). Both are very knowledgeable on the company. Bill's questions start focussed on Fairfax's past: trust in management, reserving and past equity investments. Charlie and Asheef do a good job of bridging the discussion to Fairfax as it exists today, including its cheap valuation and its solid future prospects.

Appendix I: The Fairfax Newsletter – Premier Issue (Fall 2011) – Historical Overview

Fairfax began publishing a quarterly newsletter in 2011. The premier issue contains a 4-page interview with Prem. It provides some great historical information on Fairfax:

- The creation of Hamblin Watsa - 1984
    - The investment philosophy of Hamblin Watsa: value investing.
    - The genesis of the idea to copy Warren Buffett's strategy of combining value investing with float to increase the returns of a P/C insurance company (like Larry Tisch and Henry Singleton).

- The creation of Fairfax – 1985
    - Thank you, Francis Chou! (The idea initially came from him.)
    - Began with the purchase of a control position in Markel Insurance Company (Yes, that Markel – they were instrumental in Fairfax's early growth).

- The genesis of Fairfax's corporate structure
    - Insurance subs operate independently – the insurance part.
    - Hamblin Watsa manages the company's investment portfolio.

How would you describe the investment style of Hamblin Watsa?

"Our investment philosophy at Hamblin Watsa rests on the principles of value investing championed by Ben Graham and practiced by Warren Buffett and John Templeton. We have a long term value-oriented approach to managing money, which results in our viewing the risk of capital loss within a portfolio differently than how other investment managers may view it. We do not worry about the short term fluctuations of the market, focusing instead on the long term asset values of our investments. We look at markets declining as an opportunity to buy good assets cheaply, or in other words, an opportunity to buy one dollar for fifty cents, as my old friend Peter Cundill would say. Similarly, when market exuberance sends prices well above our estimation of value, we don't buy, and we might sell. This long term approach takes solid research and courage and conviction, because you are regularly acting differently from the prevailing market sentiment and you may initially, and sometimes for quite a while, suffer unrealized losses until the market ultimately validates your investment choice. Simply put, a clear understanding of the fundamental value of our holdings allows us to go against the crowd. It is lonely at times, but it works." *The Fairfax Newsletter – Fall 2011*

Premiere Issue: VOLUME 1 || ISSUE 1 || WINTER 2011

The FAIRFAX Newsletter

Welcome to the Fairfax Newsletter. This is the inaugural issue of a newsletter we will publish on a periodic basis. We seek to accomplish two major goals in publishing this newsletter. First, we intend to promote a broader base of knowledge about Fairfax to all of our employees. Second, we seek to promote and facilitate greater cooperation and interaction across our group, between companies and among employees. In future issues we intend to highlight centers of excellence within the Fairfax group, focus on interesting and novel approaches to building lines of business, and provide profiles of individuals and offices as well as conduct interviews with key executives within Fairfax.

It is our hope that you, the employees of the Fairfax group of companies, will also actively engage in developing the message of our newsletter. We welcome your comments, critiques, suggestions and ideas for stories and features. Please do not hesitate to email newsletter@fairfaxinsgroup.com at any time.

In This Issue:

Prem Watsa Interview.....1-4
Guiding Principles.....4
Polish Re Donation.....5-6

An Interview with Prem Watsa, Chairman and CEO of Fairfax Financial Holdings Limited

Fairfax began after you had already started Hamblin Watsa Investment Counsel. Would you please tell us about how you started Hamblin Watsa?
Hamblin Watsa Investment Counsel opened its doors in 1984. After working as an investment analyst and money manager in large organizations, I teamed with my former boss from Confederation Life, Tony Hamblin, to start our own investment manager where we could run our business and manage money in our own style, answering only to our clients. We had credibility, a track record we had built managing money together at Confederation Life, and enough people who believed in our abilities and gave us enough of their own money to manage that we were able to start the business. We were soon joined by partners, most of whom we had worked with previously – Brian Bradstreet, Frances Burke, Roger Lace, Enza LaSelva and Mary Pritchard, all of whom are still with us. With clients who understood our value-oriented investment style, our business grew nicely.

How would you describe the investment style of Hamblin Watsa?
Our investment philosophy at Hamblin Watsa rests on the principles of value investing championed by Ben Graham and practised by Warren Buffett and John Templeton. We have a long term value-oriented approach to managing money, which results in our viewing the risk of capital loss within a portfolio differently than how other investment managers may view it. We do not worry about the short term fluctuations of the market, focusing instead on the long term asset values of our investments. We look at markets declining as an opportunity to buy good assets cheaply, or in other words, an opportunity to buy one dollar for fifty cents, as my old friend Peter Cundill would say. Similarly, when market exuberance sends prices well above our estimation of value, we don't buy, and we might sell. This long term approach takes solid research and courage and conviction, because you are regularly acting differently from the prevailing market sentiment and you may initially, and sometimes for quite a while, suffer unrealized losses until the market ultimately validates your investment choice. Simply put, a clear understanding of the fundamental value of our holdings allows us to go against the crowd. It is lonely at times, but it works.

Warren Buffett is the most well-known practitioner of this brand of long term value investing. We have long admired his skill and investment returns. But the most important idea I got from Mr. Buffett – and it was Francis Chou (who later became a

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young employee at Hamblin Watsa) who brought this idea to me – is that Warren Buffett, like Larry Tisch and Henry Singleton before him, realized that owning insurance companies would allow him to significantly increase the profits of those companies by exercising his investment skills on those companies' float (the "float" is basically the premiums collected but not yet used for paying claims or expenses).

And this lesson inspired you to start Fairfax?

It did. It was a defining moment for us. And we put this lesson into practice in 1985, when the opportunity to buy control of Markel Insurance Company of Canada came to us. With great luck and much hard work, we persuaded a number of our investment management clients, in particular Robbert Hartog who became a director and the Chairman of our Audit Committee, and my former employer Confederation Life, to invest $5 million to purchase control of Markel Insurance's holding company (which I'll call Fairfax since we subsequently changed the holding company's name to Fairfax Financial). As a result, we gained investment management of the $40 million float within Markel Insurance.

So you were now a money manager controlling an insurance company.

In my new role as Chairman and controlling shareholder of Fairfax, I was confident that we could manage Markel Insurance's investment portfolio well, but I had no background in running an insurance business. We needed an experienced person to run the insurance operations, so we hired a highly respected insurance industry veteran as CEO of Markel Insurance. Trusting in his expertise and experience, we allowed him to operate the company independently, while we retained exclusive responsibility for managing the company's investment portfolio.

Is it fair to say that this structure and philosophy underlies the Fairfax approach to running an insurance company?

Yes. We had hit upon a very powerful operating philosophy that we continue to follow today. Our goal at Fairfax is to provide long term returns for our shareholders by treating our customers well and our employees well. We realized we could achieve an excellent total return for our shareholders over time by combining disciplined underwriting in our property and casualty insurance businesses – disciplined meaning that business should be written profitably, and writings will be reduced if business cannot be written profitably – with investment management based on value investing principles.

So we permit management of each of our insurance companies to manage their insurance business without interference from head office, while managing investments is all done at head office by Hamblin Watsa. This combination of disciplined underwriting by decentralized companies and a centralized value-oriented investment management dedicated to long term total returns has made Fairfax very different from most other insurance holding companies.

Are there other elements of your investment philosophy that influence how Fairfax's insurance businesses operate?

We brought the discipline of our investment style into our insurance operations. It doesn't make sense to us, as value-oriented long term investors, to pay more for a stock or bond than a price on which, in our estimation based on its value, we should earn a good return over time. The same principle holds true for underwriting. The insurance industry as we all know is very cyclical. We focus on avoiding writing business where we are not being properly compensated for assuming the potential liability. If pricing is weak and the business cannot be written profitably, we simply decline to write the business. Similarly, in a hard market where pricing is strong and profitable, we will focus on greatly expanding the amount of business written. Management of our companies understand clearly that they will be measured only on the profitability of their underwriting. As value investors, we focus on preserving capital and not paying too much for assets. That value philosophy drives our approach to the insurance business as well.

I think this focus on disciplined underwriting is very powerful and not all that common in the property and casualty industry. We judge our insurance companies by their profitability, not by the volume of business they write. Effectively, this is the same performance standard we use in judging our portfolio returns at Hamblin Watsa.

What is the geographic scope of the Fairfax insurance operations?

Fairfax now owns and has minority investments in a growing number of property and casualty insurance and reinsurance companies around the world. Since our first purchase in 1985, we have had the good fortune to build our presence in the industry by numerous acquisitions. We are now operating in over 100 countries around the world. We have made many "fair and friendly" acquisitions over the years and have been very fortunate indeed to have attracted top flight executives and talented people who were drawn to our decentralized approach and our culture.

Our largest insurance companies operate in the major developed markets in North America and Europe and offer a wide range of primarily commercial lines, including many specialty and niche lines of business. Our reinsurance business operates essentially worldwide. And we are also minority partners in other insurance businesses, notably in India, China and the Middle East. These parts of the world are developing rapidly, and because they have low insurance and reinsurance product penetration, these areas hold significant promise for us in the future.

Prem, you often speak about the Guiding Principles of Fairfax. What are these principles and how have

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they helped shape the culture of the company?
Not too long after we started, we thought hard about the objectives, the structure and the values that constituted the culture of Fairfax – the way that everyone in Fairfax together would operate our business – and we wrote them down. They have been with us for a long time, we refer to them constantly, and we don't expect them to change. I hope that you will print them in the newsletter so that everyone can read them. They are all important, but I would particularly emphasize the first item of each of our objectives, structure and values, and our value of working cooperatively, without egos: as President Reagan once said, "Anything in the world is possible if you don't care who gets the credit".

You probably know that the name "Fairfax" was chosen as an abbreviation of "fair, friendly acquisitions". The concept of "fair and friendly" is central to our culture. We want to treat everyone we deal with well. We don't engage in hostile acquisitions. "Fair and friendly" doesn't mean that we are weak or that we are not focused on our businesses, but it establishes a way of operating businesses that is comfortable for all our employees and that gives us a reputation that over time has become a real advantage in our business dealings.

And as Fairfax has grown larger and more complex, how has the approach to managing the enterprise changed?
There are two points I would like to mention. First, we recently appointed Andy Barnard as President and COO of our Fairfax Insurance Group. In this new role, Andy will oversee all of Fairfax's insurance and reinsurance operations and work with the leaders of our companies on strategy and coordination. In Odyssey Re, Andy built one of the most successful reinsurance companies in the world over the course of the last fifteen years. He is a wonderful example of the "entrepreneur unleashed" that our decentralized model for operations successfully nurtures.

Second, we are actively considering how to make the special skills and expertise we have in various parts of our extended operations available to the benefit of other parts of the organization, and how to ensure the establishment and practice of the Fairfax culture throughout the organization, while at the same time fully maintaining our decentralized structure. This is important but not easy, so it is something that we, and we hope everyone throughout the group, will think about and work on.

You have talked about "doing good by doing well". What does that mean?
We all recognize that there are many needs in the communities in which we live that simply can't be taken care of by governments. If we operate our business profitably, we have the means to assist in taking care of those needs. Doing well in your business gives you the ability to make a significant difference by doing good in the world and within the communities in which you operate.

In order to support the communities in which we operate our businesses and live, we contribute 1% of our pre-tax profits (and we are thinking of raising that) to charitable organizations and projects.

The power of "doing good by doing well" struck me when I realized that when Fairfax started in 1985, its total worth was about $2 million, while in 2010 alone we donated in excess of $10 million to our communities. Isn't that unbelievable! First you have to do well in your business, and that gives you the ability to do good to help the people in our communities who need it the most. We have many heartwarming examples of where we have helped.

Can you give us a recent example?
In September of this year we visited a boarding school in Poland devoted to the education of children who were born blind. We found ourselves in a truly wonderful place where people have dedicated their lives to helping the blind children become fully functioning and productive members of society by the time they leave the school in their early 20s. Our Polish Re subsidiary made a substantial donation to help the school continue to expand and meet the needs of even more students.

You have been outspoken with your concern about the global economy. Do you have any advice for our employees?
This is a time, I think, to be very careful. We think of the contraction and recession in 2008-2009 and what is happening now as perhaps a one in 50 or one in 100 year event. The only comparable events in recent economic history are Japan since 1990 and the U.S. in the 1930s, where nominal Gross National Product remains flat for 10 to 20 years with many bouts of deflation. Currently, there is very little flexibility in the economic systems because there has been a huge debt build-up over the recent past.

We worry that in the United States there is no ammunition left for government to counter this debt build-up and its negative impact on the economy. Interest rates are already effectively at zero percent and there is no fiscal "ammo" remaining. In 2008-2009 the United States stimulated the economy with a lot of borrowed money, with little positive effect. Further U.S. fiscal stimulus in our opinion is not likely to occur because there is no political consensus that adding more government spending will ease unemployment or otherwise impact the current economic malaise. Europe has already approved austerity budgets to deal with its debt build-up and balance its books. Finally, in China there is a possibility that a major bubble in real estate may burst.

While the 2008-2009 period was a very brief period of recession due to stimulus injected into the economy and the lowering of interest rates at the time, we think the basic problem of a weak economy and too much debt remains. The typical fiscal and monetary options are not readily available, nor do we think they would have much of an effect. So at an individual level,

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we think you have to "batten down the hatches" in the face of these problems, do what you can to carry no personal debt, and be very careful as investors. These challenging economic conditions could last for some time to come.

At Fairfax, we have hedged our equity portfolio, we bought U.S. treasury bonds, and since we worry that a slow to no growth environment could tip into deflation, we own contracts that benefit from deflation. We are very conservatively positioned because we are worried. However, I do believe that companies which survive this period will thrive – and we intend to be one of those companies.

With those concerns noted, are you excited about Fairfax today?
I remain very excited and optimistic about our future. Look at what we have in place that we have built over more than twenty-five years. We have a network of wonderful insurance and reinsurance businesses and operations around the world, which are run and staffed by exceptional and talented individuals who have not sacrificed our goal of underwriting profitability simply to write business in the current softer markets, but who have the ability and the capital to increase that business dramatically and profitably in a hard market. We continue to be alert to expanding opportunistically and responsibly. We have an outstanding investment capability at Hamblin Watsa, with a sterling track record over more than twenty-five years, and our investments are excellently positioned to do well in the tough economic conditions we foresee. We are well capitalized, we have a decentralized structure, and we have a wonderful culture which has helped us build an excellent reputation. Our focus has always been on doing well over the long term, and I can't help but be excited in looking at our prospects over the next twenty-five years.

Thank you, Prem.

GUIDING PRINCIPLES

OBJECTIVES:

- We expect to compound our mark-to-market book value per share over the long term by 15% annually by running Fairfax and its subsidiaries for the long term benefit of customers, employees and shareholders - at the expense of short term profits if necessary.
- Our focus is long term growth in book value per share and not quarterly earnings. We plan to grow through internal means as well as through friendly acquisitions.
- We always want to be soundly financed.
- We provide complete disclosure annually to our shareholders.

STRUCTURE:

- Our companies are decentralized and run by the presidents except for performance evaluation, succession planning, acquisitions and financing which are done by or with Fairfax. Cooperation among companies is encouraged to the benefit of Fairfax in total.
- Complete and open communication between Fairfax and subsidiaries is an essential requirement at Fairfax.
- Share ownership and large incentives are encouraged across the Group.
- Fairfax will always be a very small holding company and not an operating company.

VALUES:

- Honesty and integrity are essential in all our relationships and will never be compromised.
- We are results oriented - not political.
- We are team players – no "egos". A confrontational style is not appropriate. We value loyalty - to Fairfax and our colleagues.
- We are hard working but not at the expense of our families.
- We always look at opportunities but emphasize downside protection and look for ways to minimize loss of capital.
- We are entrepreneurial. We encourage calculated risk taking. It is all right to fail but we should learn from our mistakes.
- We will never bet the company on any project or acquisition.
- We believe in having fun - at work!

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Appendix II: Summary of Fairfax's Asset Purchases and Sales Going Back to 2010

Below is a comprehensive list of Fairfax's capital allocation decisions going back to 2010.

- The information has been complied by calendar year.
- The transaction amounts (purchases and sales) have been separated by business unit - insurance and investments.
- Many purchases and sales involved numerous transactions over many years – to assist the reader, many of these have been numbered and color coded.
- The list of included transactions is a bit eclectic – it includes things I wanted to track.

Key take-away: Fairfax's capital allocation track record since about 2018 has been outstanding.

	Fairfax Transaction Summary					
	How the legacy insurance companies were formed (from 2016 AR)					
1985	**Markel Insurance**		$10			
1989	Federated Insurance		$29			
1990	Commonwealth Insurance		$58			
1994	Lombard Insurance		$155			Northbridge was golden goose in early years that propelled expansion
2003	Northbridge Insurance	created from 4 listed above				Total investment $252 million
1995	Skandia US (renamed **Odyssey Re**)		$228			BV $314
1996	CTR					
1999	TIG Re					
2002	Hudson expansion	created core of Odyssey Re				
1998	**Crum & Forster**		$680			
2000	Seneca		$65			
2006	Fairmont (from TIG)					
2011	First Mercury		$294			
	Redwoods Group, Travel Insured, Brownyard Programs and Trinity Risk					2016 AR: Crum has paid most dividends of all insurance co's
	A Few Transactions From Before 2010					
2001	ICICI Lombard	Minority partner				Partner with ICICI Bank
2002	First Capital (Singapore)	New insurance buy	$35			
06 to 09	International Coal Group #1				$152	Chairman of IC was Wilbur Ross; p8 2011 AR
2008	Abitibi (Resolute)	New debt buy			$347	Convertible bond
08 & 09	Sandridge Energy	Primarily convertible preferds			$329	Invested Q3 2008 & Nov 2009
2009	BDT Capital	Initial investment				

			Insurance		Non-Insurance		
			Sale	Buy	Sale	Purchase	
Date	2010	All figures are US$	Proceeds	Cost	Proceeds	Cost	Comments
30-Mar	Mega Brands (Can) #1	Recapitalization					Fairfax owns 16.5% (does warrants bump this up to 31%?)
12-May	SFK Pulp (Can)	Add to position					SFK Pulp becomes Fibrek; Fairfax owns 20.38%
20-May	Zenith National (US)	Insurance buy		$1,300			Fairfax owns 100%; prior to acquisition Fairfax had owned 8.2%
01-Jul	TIG Indemnity	Insurance sale					Realized net gain before taxes of $7.5 million
16-Jul	Fibrek (Can) was Abitibi	Add to position				$16	Fairfax owns 25.8%
20-Aug	General Fidelity - GFIC (US)	Runoff buy		$241			First runoff acquisition; part of Riverstone
28-Sep	Gulf Insurance Group #1	New insurance buy		$217			Fairfax owns 41.3%; partners with KIPCO
28-Sep	Arab Orient	Insurance sale	$11				Sold to GIG at cost (purchased in 2008)
10-Dec	International Coal Group #2	Sell down position			$164		After sale owns 11.1%. Investment gain = $77.9 million
	Kennedy Wilson (US)	New equity buy				$100	6% preferred converible @ $12.41/share
	Fairfax owns 18.5% of KW					$33	6.56% preferred convertible @ $10.70/share
	In 2010 & 2011 invested $290 million in real estate deals with KW					$4	400 thousand shares @ $10.70/share
	Magna (Can)				$99		realized gain amount (+62%)
	General Electric				$51		realized gain amount (+13%)
	Cheung Kong				$26		realized gain amount (+50%)
	Equity hedges					$937	Unrealized losses = cost 4.2% in total return in 2010
	CPI-linked derivative contracts				$28		Unrealized gain. YE value = $328.6; avg term 9.4 years
		Total 2010	**$11**	**$1,758**	**$368**	**$1,089**	

			Insurance		Non-Insurance		
			Sale	Buy	Sale	Purchase	
Date	2011	All figures are US$	Proceeds	Cost	Proceeds	Cost	Comments
04-Jan	GAB Robins North America	Insurance buy					Provider of loss adjusting and claims management services
09-Feb	First Mercury (US)	Insurance buy		$294			Fairfax owns 100%
24-Mar	Pacific Insurance (Malaysia)	Insurance buy		$72			Fairfax owns 100%
29-Jun	The Brick (Can)	Add to position				$88	Exercise of warrants; Fairfax increased ownership from 17.3 to 33.6%
30-Jun	RIM / Blackberry #1	New equity buy					At June 30 Fairfax owned 241,340 shares valued at $8.4 million (13F)
26-Jul	Bank of Ireland #1	New equity buy				$387	Fairfax owns 8.7%. (2.8 billion shares at €0.10/share). Consortium with Wi
16-Aug	William Ashley (Can)	New equity buy					
30-Sep	International Forest Products (Can)						Fairfax owns 18.85%
21-Nov	Mega Brands #2	Add to position					Fairfax buys 500,000 common shares; including warrants owns 32.3%
22-Dec	Sporting Life (Can)	New equity buy				$31	Fairfax owns 75%
29-Dec	Imvescor Restaurant Group (Can)	Recapitalization				$10	If warrants exercised Fairfax owns 37.8%
30-Dec	Polskie (PTU)	Sold all of position				$10	Gain on sale of $7 million
31-Dec	ICICI Lombard Ins (India) #1	Add to position		$108			To acquire and maintain 26% interest; fair value = $230.4 million
	Grivalia-Euobank Prop (Greece) #1	New equity buy					In 2011 Fairfax purchases intial position of 3.8% for ?
	International Coal Group #3	Exit position			$330		Total realized gain on ICG = $341.2 million (sold in 2 tranches in 2010 and
	Kraft	Exit position			$385		Cost = $291 million. Realized gain = $94 million = 32%. Bought Q1 2009
	Equity hedges				$414		Unrealized gain
	CPI-linked derivative contracts					$234	Unrealized loss
		Total 2011	**$0**	**$474**	**$1,129**	**$760**	

			Insurance		Non-Insurance		
			Sale	Buy	Sale	Purchase	
Date	2012	All figures are US$	Proceeds	Cost	Proceeds	Cost	Comments
10-Jan	Prime Restaurants (Can)	New equity buy				$69	Fairfax owns 81.7%
27-Jan	RIM / Blackberry #2	Add to position					Raised stake to 5.12%; owns 26.85 million shares up from 11.8 million
19-Mar	Thai Re (Thailand)	Add to position		$77			Fairfax ownership from 2% to 23.2%; opportunistic (after tsunami)
2012	Thomas Cook (India)	New equity buy				$173	Fairfax owns 87.1%; "vehicle for expansion in India"
Aug	Grivalia (Eurobank Properties) #2	Add to position				$50	Fairfax ownership increases from 3.8% to 18%
Sept	Mullen Group (Can)	Exit position			$136		Cost C$65 milion in 2009 (10% convertible debentures)
12-Oct	Brit Insurance (UK)	Runoff buy		$335			Fairfax owns 100%;
01-Nov	Imvescor Restaurant Group	Add to position				$1	If warrants exercised, Fairfax owns 45%
11-Nov	The Brick (see Leon's)	Merger			$221		Sold to Leon's; realized gain = $112 million (early 2013)
	Leons Furniture (Can)						Fairfax's ownership in new company?
10-Dec	Cunningham Lindsey	Insurance Sale			$271		Recognized net gain of $167 million.
	Arbor Memorial (Can) #1	Take private				$105	Fairfax holds 39.5% interest ($88 million gain on sale of public shares?)
	Alliance Insurance (Turkey?)						Sale to GIG
	Equity hedges					$1,006	Unrealized loss
	CPI-linked derivative contracts					$129	Unrealized loss
		Total 2012	**$0**	**$412**	**$627**	**$1,532**	

			Insurance		Non-Insurance		
			Sale	Buy	Sale	Purchase	Average exchange rate CAN$ to US$ $0.971
Date	2013	All figures are US$	Proceeds	Cost	Proceeds	Cost	Comments
02-Apr	Imvescor Restaurant Group	Exit position			$26		Sold to GMP Securities
14-May	IKYA (India) / Quess #1	Private equity buy					Thomas cook acquired 77.3% for $46.8 million; became Quess; funded via
03-Jul	Hartville Group (US) - pet insurance	Insurance buy		$34			Crum & Forster purchased 100%
03-Oct	American Safety (US)	Insurance buy		$317			Fairfax received dividend of $123.7 million; some business run off
08-Oct	AS Re	Insurance sale	$53				America Safety's Bermuda based reinsurance sub

31-Oct	Prime Restaurants	Merger					81.7% interest to CARA in exchange for shares/warrants = $54.5 million
	Cara(Can) #1	New equity buy				$96	Fairfax owns 49% of CARA (total Cara investment = $ 157 million 2016 AR)
23-Sep	Blackberry	Take private					$4.7 billion deal did not happen. Only announced deal Fairfax walked away
18-Oct	Mytilineos (Greece)	New equity buy				$41	Fairfax owned 5.9%; of total, Mytil said FFH buys 4.97 mill sh at €5.13 = €2
13-Nov	Blackberry #3	Debenture buy				$500	Debentures pay 6% & convertible at $10/share.
20-Dec	Reitmans (Can)	Add to position				$12	Fairfax owns 13.8% (was 9.9%); paid C$6.35/share for 2 million shares
	Eurobank Properties (Grivalia) #3	Add to position				$27	Fairfax owns 41%. Position had unrealized gain $109 million at YE 2013
	Wells Fargo	Exit position	sold to		$795		Cost = $388. Realized gain of $407 = 105% over life of holding
	J&J	Exit position	offset		$725		Cost = $512. Realized gain of $213 = 42% over life of holding
	US Bankcorp	Exit position	equity		$178		Cost = $258. Realized gain of $309 = 120% over life of holding
	USG	Exit position	hedge				Realized gain = $69
	Fiat	Exit position	losses				Realized gain = $69
	Jumbo	Exit position					Realized gain = $56
	Equity hedges					$1,982	Unrealized loss
	CPI-linked derivative contracts					$127	Unrealized loss
		Total 2013	**$53**	**$351**	**$1,724**	**$2,785**	
			Insurance		**Non-Insurance**		
			Sale	**Buy**	**Sale**	**Purchase**	Average exchange rate CAN$ to US$ $0.906
Date	**2014**	All figures are US$	**Proceeds**	**Cost**	**Proceeds**	**Cost**	**Comments**
04-Feb	Keg (Can)	New equity buy				$77	Fairfax owns 51%
09-Feb	Thomas Cook	Add to position				$81	Fairfax contribution to help Thomas Cook purchase Sterling Resorts ($140 r
28-Feb	Mega Brands	Exit position					Sold to Mattel; Fairfax made $17 milllion (including loss on original debs)
04-Mar	Bank of Ireland #2	Sell down position			$342		€308 million (933 x €0.33). Fairfax owns 5.8% (down from 8.7%).
20-Mar	Torstar (Can)	Add to Torstar				$12	Fairfax owns 22.7%
May	CIB Bank (Egypt)	New equity buy				$330	Fairfax owns 7.3%. Great bank. Issue since initial purchase has been currer
21-May	PT Batavia (Indonesia)	Insurance buy		$9			Fairfax owns 80%; renamed Fairfax Indonesia
05-Jun	Praktiker Hellas (Greece)	New equity buy				$29	Fairfax owns 100%; Home improvement/big box Greece; Grivalia owns sor
30-Sep	IBM	New equity buy				$245	Q2 & Q3 13F: 1.36 million shares @ $180 (estimated cost)
14-Nov	Pet Health (Can)	Insurance buy		$89			Fairfax owns 100%. Paid 10 x free cash flow.
16-Dec	QBE insurance (Ukraine)	Insurance buy					Eastern European. Paid €9.75 million.
Dec	Eurobank (Greece) #1	New equity buy				$444	Fairfax spends €400 million; in 2015 became largest unrealized loss in Fair
	Equity hedges					$195	Unrealized loss
	CPI-linked derivative contracts				$18		Unrealized loss
		Total 2014	**$0**	**$98**	**$360**	**$1,411**	
			Insurance		**Non-Insurance**		Average exchange rate Euro to US$ $1.11
			Sale	**Buy**	**Sale**	**Purchase**	Average exchange rate CAN$ to US$ $0.7832
Date	**2015**	All figures are US$	**Proceeds**	**Cost**	**Proceeds**	**Cost**	**Comments**
Jan	Fairfax Dividend					$216	$10/share
01-Jan	Union Unsurance (Sri Lanka)	Insurance buy		$28			Fairfax owns 78%; re-named Fairffirst Insurance; purchased from John Kee
01-Mar	MCIS Insurance (Malaysia)	Insurance buy		$13			Malaysian insurer
30-Jan	Fairfax India #1	IPO				$300	30 million shares @ $10/share; Fairfax owns 28%; 2014 Modi election in Ir
15-Mar	Bank of Ireland #3	Sell down position			$374		€313 = 935 shares x €0.36. Fairfax sold 1/2 of 5.8% stake for more than tri
10-Apr	Cara #2	IPO					Fairfax owns 40.7% Exchanged existing holdings for common shares. Cara i
							C$230 million raised = $23 x 10 million
	Africa Re	Insurance		$61			7.2% stake
04-May	BIC Insurance Corp (Vietnam)	Insurance buy					Fairfax owns 35%; insurance sub of BIDV Bank, 2nd largest bank in Vietnan
05-Jun	Brit (UK) #1	Insurance buy		$1,657			Increased Lloyds profile of Fairfax. Issued 1.15 million Fairfax shares.
			$516				30% of Brit sold to OMERS
10-Jun	Tembec (Can)	New equity buy				$35	Fairfax owns 19.9%
18-Jun	Ridley	Exit position			$313		Sold its 73.6% interest; pre-tx gain = $236.4. Realized 31% annual gain.
24-Aug	Fairfax	Change to multiple voting share					Vote delayed twice; barely passed (required support of 2/3) by vote of 70%
05-Sep	The McEwan Group (Can)	New equity buy					Celebrity chef; owns 4 restaurants
Sept	FBD Group - Ireland #1	Insurance buy		$91			€70 million pounds; 10 year convertible bond. Leader in farm insurance
20-Oct	EXCO Resouces #1	Loan				$300	At 12.5%/year
30-Oct	ICICI Lombard #2	Add to position		$234			Bought 9%; Fairfax owns 34.6%. Partnership began 16 years ago. Total inve
Nov	Eurobank #2	Recapitalization				$389	Fairfax invests additional €350 million. Own inc from 12.5% to 17%
Nov	Quantum Advisors (India)					$46	Fairfax owns 49%; Invesmtnet manager
22-Dec	Eurolife (Greece) #1	Insurance buy		$181			Fairfax owns 40%; bought from Eurobank. 3rd largest insurer in Greece
							OMERS also bought 40% stake for $180 million
2015	Ambridge Partners #1	Insurance buy		$29			Brit purchases 50%; Ambridge (New York) is leading managing general age
	IIFL Holdings (India)	Update on position				$65	Fairfax owns 8.97% and has economic interest of an additional 5.24%.
	Boat Rocker	Initial investment					Fairfax acquired controlling stake
	Farmers Edge #1	Initial investment					
	Colonade (Luxembourg)	Insurance					Created by Fairfax to write all Eastern European insurance business
	Equity hedges				$502		Unrealized gain
	CPI-linked derivative contracts				$36		Unrealized gain
	Share Issue						1.15 million shares issued to help buy Brit
		Total 2015	**$516**	**$2,294**	**$1,224**	**$1,351**	

			Insurance		Non-Insurance		Average exchange rate Euro to US$ $1.1068
			Sale	Buy	Sale	Purchase	Average exchange rate CAN$ to US$ $0.7553
Date	**2016**	All figures are US$	**Proceeds**	**Cost**	**Proceeds**	**Cost**	**Comments**
Jan	Fairfax Dividend					$228	$10/share
05-Jan	APR Energy (US) #2	Take private				$340	Fairfax owns 49% (was 18.9%). Total invested to date = $340 million. Total
31-Mar	Cara #3	Capital raise				$100	Fairfax owns 23.3 million shares = 39% euity & 57% voting. Help fund St Hu
16-May	Sandridge Energy	Bankruptcy (initial investment 2008)					Prem 2015AR: sounds like Fairfax lost 100% of investment. $329 million?
July	Quess #2	IPO					Quess raised $60 million selling 10% of company
Aug	Brit #2	Add to position					Brit paid $57.8; ownership increased to 73%
25-Aug	Torstar	Add to position				$5	Fairfax owns 27.4%
03-Oct	Asian Alliance (Sri Lanka)	Insurance buy		$10			Sri Lankan insurer; renamed Fairfirst insurance
10-Oct	AMAG Insurance (Indonesia)	Insurance buy		$179			Fairfax owns 80%
18-Oct	AIG Latin Am & East Europe	Insurance buy		$240			Built out Fairfax's Latin America and Central/Eastern Europe footprints
31-Oct	Golf Town (Can)	Bankruptcy purchase				$31	Fairfax owns 60%. 48 locations.
Oct/Nov	Fairfax	Before election sold 90% of treasury bonds (moved to cash)					US election / fundamental change / drmamtic improvement in US econom
		After election sells down equity hedges					"reduces the need for the capital preservation protection of equity hedging
09-Dec	Bank of Ireland #4	Sell down position			$105		Proceeds 95m Euros (415m shares x 0.23 euro). Fairfax reduces ownership
07-Dec	Zurich South Africa (renamed Bryte)			$128			Renamed Bryte Insurance
19-Dec	Chorus Aviation (Can)	Debt & warrant deal				$155	Debs pay 6% + warrants strike $8.25; potentially own = 16.2%
	Davos Brands (US) #1	Private equity purchase				$50	35% interest with David Sokol
	Rouge Media (Can)	Private equity purchase					
	Blue Ant Media (Can)	Private equity purchase				$42	Debt and warrants
	Equity hedges					$1,193	2016AR: the presidential election on November 8, 2016 changed the world
	CPI-linked derivative contracts					$196	Unrealized gain
	Share Issue						1 million to fund ICICI Lombard add and Eurolife buy
		Total 2016	**$0**	**$557**	**$105**	**$2,340**	

			Insurance		Non-Insurance		
			Sale	Buy	Sale	Purchase	
Date	**2017**	All figures are US$	**Proceeds**	**Cost**	**Proceeds**	**Cost**	**Comments**
Jan	Fairfax Dividend					$237	$10/share
13-Jan	Fairfax India #2	Second equity raise				$145	12.3 million shares @$11.75/share; Fairfax ows 30.2% of Fairfax India
26-Jan	Mosaic Capital Corp (Can)	Debt & warrant deal				$116	Debs pay 5.7% + warrants strike $8.81; potentially own = 61.7%
17-Feb	Fairfax Africa	IPO				$325	Paul Rivette was driver. Fairfax owns 64.2%; $252.2 cash + AFGRI (Fair val
24-Feb	Altius (Can)	Debt & warrant deal				$78	Debs pay 5% + warrants strike $15.00; potentially own = 13.4%
01-Mar	Farmers Edge #2	Equity investment				$95	Fairfax owns 46.1%. Fairfax buys Kleiner Perkins stake.
	Farmers Edge	Debt and warrant deal				$64	Based on implied valuation of 4x projected Dec 2019 EBITDA
01-Mar	Performance Sports (Can) - Peak	Bankruptcy buy				$154	With Sagard Capital. 50% voting; equity 42.5%. Bauer, Easton, Cascade. Re
15-Mar	EXCO Resources #2	1.5 Lein Notes				$151	Fairfax owns 9.9% of EXCO's common shares
		Exchanged to 1.75 Lien Term Loans					$412 million in value
10-May	Astarta Holdings (Ukraine)	New equity buy				$104	Bought via multiple transactions between Jan 3 and May 10.
27-May	ICICI Lombard #3	Sell down position #1	$376				Sell 12.18%; Fairfax owns 22%. Investment gain = $223.3 million
02-Jun	Westaim (Can)	Debt & warrant deal				$39	Debs pay 5% + warrants strike $3.25; potentially own = 8.2%
09-Jun	Tembec	Sell down position			$9		After sale Fairfax owns 17.4%
15-Jun	Tembec	Sell down position			$10		After sale Fairfax owns 14.2%
19-Jun	Tembec	Exit position			$47		Position exited
04-Jul	Grivalia Properties #4	Add to position				$100	Fairfax owns 52.6% an increase of 10.3%.
06-Jul	Allied World	Insurance buy		$4,900			Fairfax owns 67.4%. Paid 1.3 x BV. The company writes $3.1 billion in busir
			$1,560				OMERS, AIMCo, others own 32.5% for $1,580
20-Jul	APR Energy #2	Add to position				$109	Fairfax owns 67.9% (from 49%). Total invested = $340+109 = $449 million
25-Jul	AGT Food & Ingred (Can) #1	Debt & warrant deal				$148	Paul Rivette discovery. Debs pay 5.4% + warrants strike $33.25; potentially
02-Aug	Sigma International Group	New equity buy				$41	Fairfax owns 81.2%. Sigma engaged in global water and wastewater infras
27-Sep	ICICI Lombard #4	Sell down position #2	$548				Sold 12.1%; Fairfax owns 9.9%. Investment gain = $372.1 million. ICICI Lom
13-Oct	APR Energy #3	Add to position				$13	Capital raise; ownership fell slightly to 67.8%
09-Nov	Torstar	Add to position				$9	Fairfax owns 40.6% (increased position by 13.3%
23-Nov	Quess #3	Sell down position			$97		Thomas Cook reduces stake from 81.52 to 75.38
28-Dec	First Capital (Singapore)	Insurance sale	$1,683				Sold to Mitsui Sumitomo; after tax gain = $1,018.6. Compounded at 30% pe
Dec	Go Digit (India) #1	Private equity buy		$11			Fairfax owns 45.3% equity interest
		Convertible preferred shares		$49			Sold ICICI position to 9.9%. Can't own > 10% of 2 insureres in India
30-Dec	IBM (initiated Q3 2014)	Exit position			$208		Sold Q2 to Q4 13F: 1.36 million shares X est $153/share
	Fairfax India #3	Add to position					Fairfax owns 33.6% from 30.2%. $114 million performance fee earned in s
	TRG (Riverstone run-off)	Final Payment		$125			Final Payment as part of 2002 purchase. Riverstone was one of best acquis
	Global small/mid cap fund	New equity buy				$50	Managed by Ben Watsa
	Bank of Ireland #5	Exit position					Sale of final 1.5%. Estimate total gain from inception = US$800 million.
	Allied World	Underwriting loss		$587			Closed July 6; received only 6 months of premiums. Hurricanes Irma, Maria
	Equity hedges					$418	Loss
	CPI-linked derivative contracts					$71	Loss
	Share Issue						5.1 milllion to fund Allied World acquisition
		Total 2017	**$4,167**	**$5,672**	**$371**	**$2,468**	

			Insurance		Non-Insurance		
			Sale	Buy	Sale	Purchase	Average exchange rate CAN$ to US$ $0.7717
Date	**2018**	All figures are US$	**Proceeds**	**Cost**	**Proceeds**	**Cost**	**Comments**
Jan	Fairfax Dividend					$283	$10/share
18-Jan	AIG Uruguay	Insurance buy		$6			Named SoughBridge Uruguay
14-Feb	Seaspan (Atlas) #1	Debt + warrants				$250	Debt pays 5.5%
	Tranche 1	Warrants					Warrants = 38.46 million shares ex @ $6.50; potentially own 22.4%
22-Feb	Keg / Cara	Merge with Cara			$8		51% interest sold to Recipe for $7.9 million + 3.4 million Recipe shares (Fa
		Cara changes name to Recipe					Fairfax 43.2%. Total Fairfax investment to date = $348 million
01-Mar	Quess #4	IPO					Thomas Cook deconsolidated Quess
							Fairfax remeasured carying value to $1.1 bil; recog. gain = $889.9 mill
07-Mar	Carillion Canada (Dexterra) #1	Banrruptcy buy					Bought after Carillion UK declared bankruptcy; Renamed Dexterra (Canadia
09-Mar	Fairfax India #3	Performance fee					$114.4 million = 7.66 million Fairfax India shares; Fairfax owns 33.6% of Fa
12-Apr	Ensign Energe Services #1	Debt & warrant deal					
31-May	Toys "R" Us (Can)	Bankruptcy buy				$235	July
18-Jun	Fairfax Africa	Additional investment				$151	12.3 million shares @ $12.25/share
05-Jul	Brit (#3)	Add to position		$252			Purchased 11.2% stake from OMERS; Fairfax's ownership in Brit = 88%
16-Jul	Seaspan (Atlas) #2	Exercise of warrants (received in #1)				$250	Exercise of W received Feb 14, 2018: 38.46 mill shares at cost of $6.50
		Grant of new warrants					Issued new warrants = 25 mill shares @ $8.05/share as incentive to exerci
31-Aug	Sporting Life & Golf Town	Merger					Post merger Fairfax ows 65.1%
01-Oct	FBD Group - Ireland #2	Exit position	$101				FBD pays Euro 86 million to purchase and cancel notes owned by Fairfax
19-Nov	Stelco (Can) #1	New equity buy				$193	12.2 million shares @C$20.50/share. Fairfax owns 13.7%
	Eurolife #2	Add to position					Bought 10% from OMERS; Fairfax owns 50%
	Arbor Memorial #2	Exit position			$179		Realized gain = $111.8
	Equity hedges					$38	Loss
	CPI-linked derivative contracts						
		Total 2018	**$101**	**$258**	**$187**	**$1,117**	

			Insurance		Non-Insurance		
			Sale	Buy	Sale	Purchase	Average exchange rate CAN$ to US$ $0.7538
Date	**2019**	All figures are US$	**Proceeds**	**Cost**	**Proceeds**	**Cost**	**Comments**
Jan	Fairfax Dividend					$278	$10/share
15-Jan	Seaspan (Atlas) #3	Debt + warrants				$250	Debt pays 5.5% + warrants = 38.46 million shares ex at $6.50
	Tranche 2	Exercise of warrants				$250	Fairfax owns 36%. Fairfax immediately exercised warrants. 38.46 million s
14-Feb	AXA Ukraine	Insurance buy		$17			
17-Apr	AGT Food & Ingredients (#2)	Take private				$227	Including warrants Fairfax owns 80% of AGT
18-Apr	Ambridge Partners #2	Buy out by Brit					Brit acquired 50% equity it did not own for 46.6 million.
17-May	Grivalia #5 & Eurobank #3	Merger					Owned 53% Grivalia & 18% Eurobank; post owns 32.4% of Eurobank
28-Jun	EXCO Resources #3	Bankruptcy/Restructuring					Emerged from bankruptcy. Bonds exchanged for shares.
							Realized losses = $296 million; $179 in 2019 and $117 million prior years
01-Aug	Quess #5	Small add to position					Fairfax owns 32.35%
07-Aug	Reitmans	Exit position				$17	7.39 million shares x C$3
05-Nov	Universalna (Ukraine)	Insurance buy		$5			Merged with AXA to become Fairfax Ukraine
14-Nov	Avante Logixx	New equity position				$14	C$18 million invested in convertible debentures
19-Nov	APR #4	Sell to Atlas			$254		Fairfax got 22.9 million Atlas shares (@ $11.10) = $254 million
	Atlas #4						Post APR transaction Fairfax owns 99.9 million Atlas shares
Dec	Quess #6	Spin Off From Thomas Cook					Fairfax directly owns 33% of Quess
Dec	IIFL	Split into 3 companies					Finance, Wealth & Securities; also 5paisa
	ICICI Lombard #5	Exit position			$729		Sold final 9.9% stake. $311 million gain ($71 recorded in prior years so net
	Stelco #2	Add to position					Fairfax owns 13 million shares (+800,000)
	Paul Rivette	Retires					Was responsible for many investments incl Fairfax Africa
	Equity hedges					$58	Loss
	CPI-linked derivative contracts						
		Total 2019	**$0**	**$22**	**$983**	**$815**	

			Insurance		Non-Insurance		
			Sale	Buy	Sale	Purchase	Average exchange rate CAN$ to US$ $0.7462
Date	**2020**	All figures are US$	**Proceeds**	**Cost**	**Proceeds**	**Cost**	**Comments**
Jan	Fairfax Dividend					$276	$10/share
Jan	Digit	Capital raise					$91 mill raised for 10% of Digit from outside inv; values co at $858 million
							To date, Fairfax has invested $154 million (did not inv in $91 mill raise)
09-Jan	John Keells (Sri Lank Conglomorate)	New equity buy					The 10.76% stake in JKH amounting to 141.8 million shares was traded at F
Feb	Leon's Furniture						$48.5 million in convertible debentures converted to common shares
Feb	Atlas #5	Debt buy				$100	5.5%. Total debt = $600 million
31-Mar	Mastercraft (US)	New equity buy				$24	Q1 13F: 1.599 million shares X (guess) $15 (could be much lower)
31-Mar	Riverstone UK	Run-off insurance sale	$600				Joint venture with OMERS. Sold 40%. Fairfax owns 60%.
13-May	Ki (Brit) #1	Launch					Brit and Google Cloud collaborate to launch Ki (algo Lloyd's of London platf
14-May	Kennedy Wilson	Real estate debt platform				$2,000	With Fairfax. $2 billion platform; KW will coinvest 20%. First mortgages W
26-May	Torstar	Exit position			$13		Fairfax booked US$52 mill loss. 28.9 million shares x C$0.63/share = C$18
29-May	Horizon North (Dexterra)	Reverse takeover					New company run by Dexterra. Fairfax owns 49% of new company
15-Jun	Ensign Energy Services	Add to position					Fairfax owns 10.76% of Ensign
16-Jun	Fairfax	Prem's big stock purchase					Prem spends $150 milion = 482,600 shares @ US$311/share
June	Eurobank	Cairo transaction					Eurobank's impaired loan ratio falls to 15.6%. €7.5 billion sold to doValue G
06-Aug	Omnia Media (owned by Blue Ant)	Sale to Enthusiast Gaming					Sold by Blue Ant Media for 18.25 million shares of Enthusiast Gaming +$11
02-Sep	Blackberry #4	Debenture redemption			$500		3.75%; convertible at $10 to shares (50 milion)
		Debenture purchase				$365	1.75%; convertible at $6 to shares (55 milion)

			Insurance		Non-Insurance		
			Sale	Buy	Sale	Purchase	Average exchange rate CAN$ to US$ $0.7717
Date	2018	All figures are US$	Proceeds	Cost	Proceeds	Cost	Comments
Jan	Fairfax Dividend					$283	$10/share
18-Jan	AIG Uruguay	Insurance buy		$6			Named SoughBridge Uruguay
14-Feb	Seaspan (Atlas) #1	Debt + warrants				$250	Debt pays 5.5%
	Tranche 1	Warrants					Warrants = 38.46 million shares ex @ $6.50; potentially own 22.4%
22-Feb	Keg / Cara	Merge with Cara			$8		51% interest sold to Recipe for $7.9 million + 3.4 million Recipe shares (Fa
		Cara changes name to Recipe					Fairfax 43.2%. Total Fairfax investment to date = $348 million
01-Mar	Quess #4	IPO					Thomas Cook deconsolidated Quess
							Fairfax remeasured carying value to $1.1 bil; recog. gain = $889.9 mill
07-Mar	Carillion Canada (Dexterra) #1	Banrruptcy buy					Bought after Carillion UK declared bankruptcy; Renamed Dexterra (Canadia
09-Mar	Fairfax India #3	Performance fee					$114.4 million = 7.66 million Fairfax India shares; Fairfax owns 33.6% of Fa
12-Apr	Ensign Energe Services #1	Debt & warrant deal					
31-May	Toys "R" Us (Can)	Bankruptcy buy				$235	July
18-Jun	Fairfax Africa	Additional investment				$151	12.3 million shares @ $12.25/share
05-Jul	Brit (#3)	Add to position		$252			Purchased 11.2% stake from OMERS; Fairfax's ownership in Brit = 88%
16-Jul	Seaspan (Atlas) #2	Exercise of warrants (received in #1)				$250	Exercise of W received Feb 14, 2018: 38.46 mill shares at cost of $6.50
		Grant of new warrants					Issued new warrants = 25 mill shares @ $8.05/share as incentive to exerci
31-Aug	Sporting Life & Golf Town	Merger					Post merger Fairfax ows 65.1%
01-Oct	FBD Group - Ireland #2	Exit position	$101				FBD pays Euro 86 million to purchase and cancel notes owned by Fairfax
19-Nov	Stelco (Can) #1	New equity buy				$193	12.2 million shares @C$20.50/share. Fairfax owns 13.7%
	Eurolife #2	Add to position					Bought 10% from OMERS; Fairfax owns 50%
	Arbor Memorial #2	Exit position			$179		Realized gain = $111.8
	Equity hedges					$38	Loss
	CPI-linked derivative contracts						
		Total 2018	**$101**	**$258**	**$187**	**$1,400**	

			Insurance		Non-Insurance		
			Sale	Buy	Sale	Purchase	Average exchange rate CAN$ to US$ $0.7538
Date	2019	All figures are US$	Proceeds	Cost	Proceeds	Cost	Comments
Jan	Fairfax Dividend					$278	$10/share
15-Jan	Seaspan (Atlas) #3	Debt + warrants				$250	Debt pays 5.5% + warrants = 38.46 million shares ex at $6.50
	Tranche 2	Exercise of warrants				$250	Fairfax owns 36%. Fairfax immediately exercised warrants. 38.46 million s
14-Feb	AXA Ukraine	Insurance buy		$17			
17-Apr	AGT Food & Ingredients (#2)	Take private				$227	Including warrants Fairfax owns 80% of AGT
18-Apr	Ambridge Partners #2	Buy out by Brit					Brit acquired 50% equity it did not own for 46.6 million.
17-May	Grivalia #5 & Eurobank #3	Merger					Owned 53% Grivalia & 18% Eurobank; post owns 32.4% of Eurobank
28-Jun	EXCO Resources #3	Bankruptcy/Restructuring					Emerged from bankruptcy. Bonds exchanged for shares.
							Realized losses = $296 million; $179 in 2019 and $117 million prior years
01-Aug	Quess #5	Small add to position					Fairfax owns 32.35%
07-Aug	Reitmans	Exit position				$17	7.39 million shares x C$3
Sept/Oct	ICICI Lombard #5	Exit position	$729				Sold final 9.9% stake in 2 sales. $311 million gain ($71 recorded in prior ye
05-Nov	Universalna (Ukraine)	Insurance buy		$5			Merged with AXA to become Fairfax Ukraine
14-Nov	Avante Logixx	New equity position				$14	C$18 million invested in convertible debentures
19-Nov	APR #4	Sell to Atlas			$254		Fairfax got 22.9 million Atlas shares (@ $11.10) = $254 million
	Atlas #4						Post APR transaction Fairfax owns 99.9 million Atlas shares
Dec	Quess #6	Spin Off From Thomas Cook					Fairfax directly owns 33% of Quess
Dec	IIFL	Split into 3 companies					Finance, Wealth & Securities; also 5paisa
	Stelco #2	Add to position					Fairfax owns 13 million shares (+800,000)
	Paul Rivette	Retires					Was responsible for many investments incl Fairfax Africa
	Equity hedges					$58	Loss
	CPI-linked derivative contracts						
		Total 2019	**$729**	**$22**	**$254**	**$1,093**	

			Insurance		Non-Insurance		
			Sale	Buy	Sale	Purchase	Average exchange rate CAN$ to US$ $0.7462
Date	2020	All figures are US$	Proceeds	Cost	Proceeds	Cost	Comments
Jan	Fairfax Dividend					$276	$10/share
Jan	Digit	Capital raise					$91 mill raised for 10% of Digit from outside inv; values co at $858 million
							To date, Fairfax has invested $154 million (did not inv in $91 mill raise)
09-Jan	John Keells Holdings #1	New equity buy					The 10.76% stake in JKH amounting to 141.8 million shares was traded at F
Feb	Leon's Furniture						$48.5 million in convertible debentures converted to common shares
Feb	Atlas #5	Debt buy				$100	5.5%. Total debt = $600 million
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31-Mar	Riverstone UK	Run-off insurance sale	$600				Joint venture with OMERS. Sold 40%. Fairfax owns 60%.
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14-May	Kennedy Wilson	Real estate debt platform				$2,000	With Fairfax. $2 billion platform; KW will coinvest 20%. First mortgages W
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29-May	Horizon North (Dexterra)	Reverse takeover					New company run by Dexterra. Fairfax owns 49% of new company
15-Jun	Ensign Energy Services	Add to position					Fairfax owns 10.76% of Ensign
16-Jun	Fairfax	Prem's big stock purchase					Prem spends $150 milion = 482,600 shares @ US$311/share
June	Eurobank	Cairo transaction					Eurobank's impaired loan ratio falls to 15.6%. €7.5 billion sold to doValue G
06-Aug	Omnia Media (owned by Blue Ant)	Sale to Enthusiast Gaming					Sold by Blue Ant Media for 18.25 million shares of Enthusiast Gaming +$11
02-Sep	Blackberry #4	Debenture redemption			$500		3.75%; convertible at $10 to shares (50 milion)
		Debenture purchase				$365	1.75%; convertible at $6 to shares (55 milion)

17-Sep	Ki #2	Capital raise		$100			$500 million from Blackstone and Fairfax (80/20 split?)
30-Sep	Lumen Technologies	New equity buy				$24	Q3 13F: 2.359 million shares X (guess) $10.10
Sept	Davos Brands #2	Exit position			$59		$59 + $36 million contingency payment
Oct	Paramount Health Services (India)					$11	Purchased by Fairfax Asia
Q3	Brit (#4)	Add to position		$206			Fairfax owns 100%; 30% bought in 3 transactions: $57.8+251.8+206.4=$516
12-Nov	Vault Insurance	Sell down position					Fairfax continues to own 10% of Vault
30-Nov	Gulf Insurance Group #2	AXA acquisition					Adds $900 million in gross premiums to GIG's $1.4 million = $2.3 million
							Total cost was $474.75 million; Fairfax did not add $
08-Dec	Helios Fairfax (Africa)	Exchange					$62 million realized loss; Fairfax Africa put out of its misery
Dec	Easton (part of Peak)	Merger			$65		Rawlings (#1 baseball brand) for $65 million + 28% of Rawlings (in Peak?)
31-Aug	Sporting Life & Golf Town	Update					Fairfax owns 71% (up from 65.1%). Invested $74 mill total for current stake
Q4	Fairfax Total Return Swaps - #3	New position					Market value = US$484.9 = 1.4 mill shares of FFH @ US$344.45/C$443.93
Q4	Torstar	Sell					$52 million realized loss
Q4	BDT Capital Partners	Sell down position?					$182 million realized gain
Q4	Stocks (Exxon, Can Banks, Shell, GOOG, Fed Ex)				$212		$212 million realized gain = 40% avg investment
Q4	Corporate Bonds	Buy		$3,900			Yield 4.1% and term of 4 years
	Equity hedges					$529	Final position sold. 11 year tragedy / catastrophe ended.
	CPI-linked derivative contracts						
		Total 2020	**$600**	**$4,206**	**$849**	**$3,329**	

			Insurance		**Non-Insurance**		
			Sale	**Buy**	**Sale**	**Purchase**	Average exchange rate CAN$ to US$ $0.7978
Date	**2021**	All figures are US$	**Proceeds**	**Cost**	**Proceeds**	**Cost**	**Comments**
Jan	Fairfax Dividend					$272	$10/share
Jan	Pet Health	Folded into Crum					
Jan	Ki #3	Begins writing business					
March	Farmers Edge	IPO					IPO raised $144 million. Over the years Fairfax invested C$376 million.
March	Boat Rocker	IPO					IPO raised $170 million. Fairfax has invested to date $110 million.
02-Mar	Ambridge Partners	Merges US MGA (Brit Global Specialty USA with Ambridge)					Brit owns 100% of Ambridge: manage + $450 mill in premium in US, and +
11-Mar	Churchill Manitoba port railway	Fairfax exits participation					Along with AGT
31-Mar	Helios Fairfax Partners	Debentures & warrants				$100	3% debs & warrants to buy 3 mill HFP shares ex at $4.90 (5 yr timeframe)
Q1	Rouge Media	Exit position			$10		
Q1	Fairfax Total Return Swaps - #2	Add to position					Original notional amount = US$732.5 = 1.964 mill shares of FFH @ US$372
Q1	Thomas Cook	Preferred Shares				$60	Fairfax holds 248.2 mn shares. Preferred shares have conversion provision
April	Atlas #6	Grant of warrants					Fairfax granted 5 million warrants ex at $13; final part of APR deal?
14-Jun	Atlas #7	Redeem Debt			$600		5.5%; secured
		Debt buy				$300	5.5%; unsecured
		Preferred share buy				$300	7% dividend first 5 years; with 1.5% increases annually thereafter
		Grant of warrants					Fairfax also gets 1 million warrants exercise price @ $13.71/share
17-Jun	Singapore Re	Re-insurance buy		$103			Increased ownership from 28.1% to 96%; afterwards increased to 100%
05-Jul	Digit #2	Fund raising round					Fairfax booked $1.4 billion unrealized gain. $200 million raised by Digit fro
14-Jul	Eurolife #3	Life insurance buy		$143			Acquired 30% stake from OMERS; Fairfax owns 80% Eurobank owns 20%
05-Aug	Mosaic Capital	Take private - Mark Yusishen					Fairfax owns $131 million in 25 year debentures = 20% equity interest in ne
06-Aug	Foran Mining	New equity buy				$78	55.6 million shares @ C$1.80/share
		Warrants					8 million warrants @ C$2.09/share
09-Aug	Quess	Sell down position			$36		Fairfax sold 3 million shares at INR 900; still owns 30%
19-Aug	Toys "R" Us Retail	Retail operations sale			$90		Fairfax still owns real estate
23-Aug	Riverstone Europe (Runoff)	Insurance sale	$696				Sold 60% to CVC Capital Partners
			$236				Contingent value instrument; entitled to be reeived post-closing
							Asset Value Loan Notes - $1.3 billion of investments sold to CVC ($1.1 billio
27-Aug	Brit Insurance	Sale of 14% interest	$375				OMERS
07-Sep	Gulf Insurance Group	Insurance buy					For $475 million purchased AXA's ops in MENA
30-Sep	Mastercraft	Exit position			$49		Q3 13F; 1.868 million shares X $26 estimated value
30-Sep	Lumen Technologies	Exit position			$18		Q3 13F; 1.425 million shares X $12.50 estimated value
30-Sep	H&R Block	New equity buy				$28	Q3 13F; 1.12 million shares X $25 estimated value
11-Oct	Eurobank	Mexico transaction					Eurobank's impaired loan ratio falls to 14% from 29%. €3.2 billion sold to d
17-Nov	Odyssey Re	Sale of 9.9% interest	$900				CCIB & OMERS
Dec	Fairfax share repurchase					$1,000	2 million shares @ $500/share
10-Dec	IIFL Finance	Sell down position			$114		Fairfax sold 7% stake held directly; still hold via Fairfax India
16-Dec	IIFL Wealth	Sell down position			$78		Fairfax sold 4.27% stake held directly; Fairfax India sold stake March 2022
Dec	Leon's Furniture	Exit position			$140		Fairfax tendered their 7.2 million shares C$25
Dec	Eurobank	Mexico transaction					Eurobank's impaired loan ratio falls to 7.3% from 15.6%. €3.2 billion sold t
	Corporate Bonds				$253		Sold $5.2bn in corp bonds acquired in March/April 2020 at yield of 1%; gain
		Total 2021	**$2,207**	**$246**	**$1,387**	**$2,138**	

			Insurance		**Non-Insurance**		
			Sale	**Buy**	**Sale**	**Purchase**	Average exchange rate CAN$ to US$ $0.7684
Date	**2022**	All figures are US$	**Proceeds**	**Cost**	**Proceeds**	**Cost**	**Comments**
Jan	Fairfax Dividend					$250	$10/share
16-Feb	Fairfax India #4	Add to position				$65	5.4 million shares @ $12/share; Fairfax owns 41.8% of Fairfax India
17-Feb	Avante Logixx Inc	Deb conversion				$6	Converted debentures to 5.3 million shares @ C$1.56/share = 19.9% owner
23-Feb	Kennedy Wilson	Preferred equity				$300	Perpetual preferred stock with 4.75% annual dividend
		7 year Warrants					13 million common shares; $23 strike price
	First mortgage debt investment platform						$3 billion added; total platform = $5 billion
25-Mar	Farmers Edge	Loan				$75	Loan from Fairfax
30-Mar	Atlas #8	Exercise of warrants				$201	25 mill shares @ $8.05; Fairfax owns 45.1% (124.8 million shares)
							Fairfax still owns 6 million warrants

14-Apr	Altius	Exercised warrants				$78	Exercised 6.67 million warrants @ C$15 = 13.94% ownership
26-Apr	Ensign Energy Services	Deb conversion				$9	Fairfax owns 12.87%. Converted debs to 6.3 mill shares @ C$1.75/share.
01-Jun	S&P Global Ratings	Upgrade Fairfax Subsidiaries					core ins and reins subsidiaries to "A" from "A-" with a stable outlook.
		Upgrade Fairfax holding company					raised its long-term issuer credit rating on the holding company to "BBB" f
20-Jun	Pet insurance sale to JAB	Insurance sale	$1,400				$1,278 million pre-tax gain; $992 million gain after tax.
	JAB notes	Seller debentures				$250	
	JAB - JCP V investment fund	New equity buy				$200	
22-Jun	John Keells Holdings #2	Convertible Debentures				$75	208 million debentures (convert at Rs130); 3% interest rate; would bump F
30-Jun	Bank of America	New equity buy				$96	Q2&Q3 13F; 2.569 million shares to 3.1 million
30-Jun	Occidental Petroleum	New equity buy				$54	Q2&Q3 13F; 886.5 to 921 thousand shares
30-Jun	Chevron	New equity buy				$45	Q2 13F; 314 thousand shares (1/2 bought in Q2 & 1/2 bought Q3 2021)
30-Jun	BABA	New equity buy				$33	Q2 13F; 292.8 thousand shares (1/2 bought in Q2)
	Thomas Cook	Conversion preferred shares					Fairfax owns 6.6% more; during 1H 2022. Owns 73% (340.3mn), up from 6
	Farmers Edge	Write down				$109	
05-Jul	Resolute FP sale	Exit position			$626		Paper Excellence US$2.7 billion buyout; 30.548 shares x $20.50; Q1 2023 cl
	On close $665.6 ($44.2 CVR)	Contingent Value Right			$183		CVR of up to $6/share future duty deposit refund x 30.548 million shares
05-Jul	Grivalia Hospitality	Add to position				$195	Fairfax increased stake from 33.5% to 78.4%; manages real estate in Gree
04-Aug	Atlas take private						US$14.45/share; no new cash from Fairfax
09-Aug	Recipe	Take private				$342	FFH stake increased from 46 to 84%; Phelan family 16%. Paid C$20.73/sha
11-Aug	Western P&C Insurance Co	Insurance buy					Buyer was RiverStone US; run-off specialist of Fairfax; size of co and purch
11-Aug	Fairfax	Debt issuance	$750				Interest rate: 5.625%; to buy Allied World minority stake
27-Sep	Allied World	Add to position		$733			FFH own incr. 70.9% to 82.9%; recorded loss of $228 mill in retained earnir
30-Sep	Micron Technologies	Add to position				$152	Increased position from 693,000 to 3.462 million
24-Oct	Foran Mining	Add to position - Exercised warrants				$25	16 million at C$2.09; owns 27.9% of Foran (27.8+43.8 = 71.6 million shares
12-Dec	Duke Royalty Ltd (UK)						New GBP100 million credit facility agreement - SONIA +5% (replace existi
							Includes 41.6 million warrants with 5 yr maturity strike of 45 pence
13-Dec	Mytilineos	Add to position				$53	Fairfax now owns 4.68%; 2.7 mill shares @ €18.5 = €50 million.
		Exchangeable Bond				$53	Includes option for 2.5 million shares @ €20 = €50 million (to Dec 2024)
14-Dec	Chorus Aviation	Debenture redemption			$85		Debentures (C$115 million) were redeemed at par; expected Dec 30 close.
		Warrants Expiration					Warrants (C$8.25 exercise price) expired upon redemption.
Q4	Sprting Life Group Limited	Add to position					Increased ownership from 71% to 88.5% in Q4. Funded via retained earning
10-Feb	Peter Clarke	Appointed President					Peter has held the position of VP, COO, Chief Risk Officer and Chief Actuary
		Total 2022	**$2,150**	**$733**	**$894**	**$2,666**	
			Insurance		**Non-Insurance**		
			Sale	**Buy**	**Sale**	**Purchase**	
Date	**2023**	All figures are US$	**Proceeds**	**Cost**	**Proceeds**	**Cost**	**Comments**
Jan	Fairfax Common Share Dividend					$245	$10/share
01-Jan	IFRS 17 - Account Change - All insurers in Canada						Increased common shareholders' equity by $2.4 billion and BVPS by $104.6
09-Jan	Ambridge Partners / Brit #3	Sale	$379				Sold to Amynta Group; $259.1 million pre-tax gain; $265.8 cash + $113.2 m
	Final deal details (differn't than ant	Performance target	$100				Receivable based on 2023 perofmance targets of Ambridge.
13-Jan	Atlas #9	Exercised Warrants				$65	5 million @ $13
		Exercised Warrants				$14	1 mill @ $13.71; FFh owns 130.8 mill shares (45.5%) of Atlas at Jan 13, 23
10-Feb	Mytilineos	Exchangeable bond				$53	Exercise of option 2.5 mill shares @ €20 = €50m. Boosts FFH stake to 6.43
21-Mar	Antenna Plus (Greece)	Initial investment for 15% stake					Amount unknown. Streaming service. Private holding (Anennna Group)
29-Mar	Quess	Add to position					6.6 million shares at INR 384; Fairfax owns 34.06% of Quess
Q1	Occidental Petroleum	Add to position				$130	Q1 added 2.1 millon shares; own 3 million
Q1	Micron	Add to position				$23	Q1 added 377 thousand shares; own 3.8 million
Q1	Orla Mining	Add to position				$21	Q1 added 4.6 million shares; own 15.4 million
Q1	Bank of America	Add to position				$9	Q1 added 301 thousand; own 3.4 million
19-Apr	Gulf Insurance Group #3	Buy out Kipco		$860			Buy Kipco stake = 46%; Fairfax will own 90% at close later this year.
	Fair value consideration = $740 ($200-$23+$563 fair value of payment deed)						$200 mill at close + 4 annual payments = $165 mill (start one year after cl
	Pre-tax gain = $280	Dividend	$23				Dividend paid by GIG to Kipco in Q2-2023.
05-Jun	Kennedy Wilson	PacWest real estate loans				$1,800	future funding +$1.7 billion? Avg ann return on capital deployed = 10%.
							avg term to maturity = 1.7 years (some extensions); LTV = 51%; 70% housi
05-Jun	Kennedy Wilson	Preferred Stock				$200	6% dividend
		Warrants					12.3 million common shares ex at $16.21; 7 year
26-Jun	Hostelworld Group (UK) - HSW.L	Increase in position					owns 5.25% of voting shares (up from 4.11%) = 6.49 million shares?
Q2	Poseidon / Altas #10	Increase in position				$11	Prem sold 678,021 shares to FFH at $15.50/share
Q2	Allied World	Increase in position		$30.6			Increased ownership from 82.9 to 83.4%
							Extended option to take out minority shareholders from Sept 24 to Sept 26
Q2	Occidental Petroleum	Add to position				$177	Position increased to 6 million shares from 3 million.
Q2	Orla Mining	Add to position				$25	Position increased to 19.9 million shares from 15.4 million.
Q2	Vanguard Index - S&P500 (VOO)	New Position				$34	
Q2	Bank of America	Exit position			$100		100% of position sold in Q2
Q2	Chevron	Exit Position			$50		100% of position sold in Q3
Q2	General Electric	Reduce Position			$8		Position reduced to 98.9 million shares from 173.9 million.
1H	Global Insurers and Reinsurers	Dividend payment		$136			1H-2023 payment to non-controlling interests. Last year was $177.7
17-Aug	IIFL Securities	Reduce Position			$12		Ownership reduced from 9.28% to 3.38%. Shares sold for avg 65.55 rupee.
22-Aug	Meadow Foods	New Position					£550 million in sales; Fairfax has majority position. Year to March 2022, ge
20-Sep	Ovostar Union PCL	Add to position				$8	Added 10.01% for PLN 31.2 million for PLN 52 / share; Owns 27.51%.
Q3	Orla Mining	Add to position				$33	Position increased to 31.1 million shares from 19.9 million.
Nov	Sutton Special Risk / Brit #4	Exit position	$30				MGU; 49% position purchased for $13 million in 2019. Sold to Amynta Gro
13-Nov	Blackberry #5	Debenture redemption			$365		1.75%; convertible at $6 to shares (55 milion)
		Debenture Extension to Feb 14, 2024				$150	1.75%; convertible at $6 to shares (25 milion)
17-Nov	Farmers Edge	Take Private					C$0.25/share (IPO was $17/share)
29-Nov	Thomas Cook India	Reduce Position			$67		Sold 40mn shares at INR 139.50 = INR 5.58bn. Still holds 300.2 mn shares.

06-Dec	Kennedy Wilson	Debt Platform					With KW, Fairfax increases commitment by $2 billion from $8bn to $10bn.
07-Dec	Fairfax	Debt Offering			$400		US$400 million at 6% (upsized to $600 million in January)
11-Dec	Orla Mining	Add to position				$7	Added 2.5mn shares at C$3.82/sh. Owns 33.6 mn or 10.7% of shares outst
12-Dec	Foran Mining	Add to position - private placement				$7	Added 2.439 million shares at C$4.10; new total = 73.995 million shares =
Q4	Intel	Reduce Position			$28		Share count reduced from 752.5k to 190k @ $50/share?
Q4	General Electric	Reduce Position			$9		Share count reduced from 93.3 to 25.6 @ $128/share?
Q4	Google	Reduce Position			$8		Share count reduced from 334.6 to 274.6 @ $139.7/share?
Q4	Orla Mining	Add to position				$21	Share count increased from 31.1 to 37.6mn @ US$3.23
FY	First mortgage loans	Add to position					From $2.50b at YE 2022 to $4.69b at YE 2023 = increase of $2.19b in 2023.
	Run-off	Adverse development		$259			Driven by 'incremental increases in litigation activity and its associated cos
21-Feb	Brian Young	Shared oversight of Fairfax Insurance Group					With Andy Barnard, oversight over all of Fairfax's re/insurance operations.
		Total 2023	**$532**	**$1,286**	**$1,047**	**$3,033**	
			Insurance		**Non-Insurance**		
			Sale	**Buy**	**Sale**	**Purchase**	
Date	**2024**	All figures are US$	**Proceeds**	**Cost**	**Proceeds**	**Cost**	**Comments**
Jan	Fairfax Common Share Dividend					$363	$15/share (50% increase)
12-Jan	Fairfax - Issued	Unsecured Senior Notes Due 2033			$200		Additional US$200 million at 6% (Dec 23 issued $400 million).
	Fairfax - Redeemed	Senior Notes Due 2024				$279	US$279 million at 4.875% (was due Aug 13, 2024)
15-Mar	Fairfax - Redeemed	Senior Canadian Notes Due 2025 C$348.6				$256	
31-Jan	Orla Mining	Add to position (couple of adds in Jan)				$61	Added 17.9 million shares in Jan/Feb at est cost of C$4.6/share
08-Feb	Blackberry #6	Debenture redemption			$150		Fairfax exits Blackbery debs. Prem also resigned from Blackberry board.
01-Mar	John Keells Holdings #3	Convert debentures (110 million)					Owns 19.4%; Converted 110 million debentures at 130/share. 98.1 million
19-Mar	Fairfax - Issued debt - 30 year	Senoir notes due 2054			$1,000		Interest rate: 6.35%
Q1	Intel	Reduce Position					
Q1	Micron	Reduce Position			$337		Position reduced from 3.911 million to 0.695 mn shares. Price: $104.76?
Q1	Vanguard Index - S&P500 (VOO)	Reduce Position					Position reduced from 40,000 to 8,000 units. Price?
Q1	Gulf Insurance Group #4	Add to position		$127			Mandatory tender offer; increased equity interest from 90% to 97.1%
Q1	Fairfax India	Performance fee			$110		
Q1	Insurance subs	Dividend to Fairfax			$451		
Q1	Runoff	Capital contribution				$140	
11-Jun	Ensign Energy	Add to position				$13	Position increased from 21.8 to 29.59 million shares at C$2.34/share. Term
18-Jun	Fairfax - Issued debt - 30 year	Unsecured Senior Notes Due 2055			$600		Interest rate 6.1% due 2055
	Fairfax - Issued debt - 10 year	Unsecured Senior Notes Due 2033			$150		Interest rate 6% ue 2033
	Fairfax - To be redeemed	Allied World Senior Notes due 2025				$500	Interest rate 4.35%
Q2	Micron	Reduce Position			$84		Position reduced from 0.695 mn shares to 40,100 shares. Price: $128?
Q2	Crescent Capital	Exit position			$34		Sold all 1.9 million shares at $18.00/share?
Q2	Vanguard Index - S&P500 (VOO)	Add to position				$40	From 8,000 to 95,000 units at $465/unit?
Q2	Under Armour	New position				$30	Buy 4.2 million shares at $6.99/share?
Q2	Rawlings Sporting Goods	Exit position					Sold via Peak Achievement (amount not disclosed)
Jun/Aug	Ensign Energy	Add to position				$20	From 21.8 to 33.4 million shares at C$2.35/share?
15-Jul	Stelco	Exit position			$566		C$60 x 13 million = C$780 million x .0725 = US$566 million
	Cleveland-Cliffs	New position			$94		Stelco sale: 0.454 CLF x $16/share x 13 million = US$94
22-Jul	Sleep Country	Take private (total purchase consideration)				$881	Cash = $562.7 + debt = $317.9 (Sleep Country - non recourse to Fairfax).
Jul	John Keells Holdings #4	Rights Offering				$21	Fairfax participated proportionately (24.5%). Total offer was 150m shares
		Share split - 10 for 1					
Aug	Eurobank	Dividend to Fairfax			$126		
08-Aug	Foran Mining	Add to position - private placement				$67	FFH owns 96.9m shares. Private placement 10.3 + 12.5m shares at C$4.05/
Q3	Under Armour	Add to position				$15	
Q3	Vanguard S&P500	Exit position			$50		
Q3	Alibaba	Exit position			$31		
Q3	Franklin Resources	Exit position			$20		
Q3	Marval Guru Fund	Add to position				$100	Initial investment of $50m made in 2017. Run by Ben Watsa, son of founde
Nov	Orla Mining	Convertible bonds + warrants				$150	Interest rate = 4.5%; Maturity 5 years; Conversion right = $7.90 into Orla sh
Nov	Fairfax issued debt - 10 year	New issuance			$313		C$450 million (4.73% due 2034)
Nov	Fairfax issued debt - 30 year	New issuance			$174		C$250 million (5.23% due 2054)
Dec	Cumulative Preferred Shares	Redemtion				$174	C$250 million
13-Dec	Brit	Buy out minority partner		$383			Increased ownership from 86.2% to 100%. Total consideration of $525.9, in
Q4	CVS	New position				$122	
Q4	Kraft Heinz	Add to position				$79	
Q4	ATS Corp	New position				$76	
Q4	Molson Coors	New position				$68	
Q4	Alphabet	Exit position			$52		
	Digit - Dividend		$112				Proceeds from IPO - likely one time in nature.
	Meadow Foods	Add to position				$83	Inreased position to 93.2%
	Peak Achievements	Add to position				$439	Own 100%. Bought out Sagard and minority partners = 57.4%. Total consid
	Fairfax Total Return Swaps - #3	Reduce Position					Reduced position by 203,800 shares; still hold 1.76 million.
	Albingia SA (French specialty P/C insurance company)			$216			33% equity interest; expected to close Q2 2025.
FY	First mortgage loans	Add to position				$90	From $4.69b at YE 2023 to $4.78b at YE 2024 = increase of $90m in 2024
	Run-off	Adverse development		$221			'...related to legacy claims, primarily latent hazard claims, construction def
	Annual share repurchases - for treasury					$240	207,974 shares at $1,154/share
	Annual share repurchases - retired					$1,588	1,346,953 shares at $1,179/share
May	P. Clarke, J. Allen & W. Burton	Host quarterly conference calls moving forward					Prem steps back from this function.
June	Gobi Athappan	Appointed - Chairman and CEO Fairfax Asia					Following the passing of his father, Mr. Athappan
June	Ben Watsa	Appointed - Chairman of Fairfax India					Relaces Prem Watsa, who will continue to sit on the board of Fairfax India
July	Gopal Soundarajan	Appointed - CEO of Fairfax India					Replaces Chandran Ratnaswami, who becomes Executive Vice Chairman of
		Total 2024	**$112**	**$947**	**$4,542**	**$5,896**	

			Insurance		Non-Insurance		
			Sale	Buy	Sale	Purchase	
Date	2025	All figures are US$	Proceeds	Cost	Proceeds	Cost	Comments
Jan	Fairfax Common Share Dividend					$344	$15/share
Jan	Blizzard Vacatia Equity Partners LLC	New position				$835	
Jan	Eurobank	Reduce position			$191		1,266 - 80 = 1,186m (80m shares at €2.294/sh = €183.5m = US$190.8). Ga
Jan	John Keells #5	Convert remaining debentures (98.125m)					After conversion, Fairfax owns 24.5% of John Keells
10-Feb	Metlen	Convert exchangeable bond					Position increased to 9.2m shares (6.688m +2.5m). Exchangeable bond con
24-Mar	Metlen	Exchangeable bonds				$119	€110m; option to acquire 2.75m shares at €40/share (upon conversion Fair
24-Mar	Boat Rocker / Blue Ant Media	Reverse takeover				($109)	Fairfax will own 23% of the combined entity. Impairment charge of $108.6
28-Mar	Sigma Companies International	Exit position			$327		Proceeds = $327.1m (cash = $284.1m + 16.1% stake in Sigma = $43m). Rea
31-Mar	Cumulative Preferred Shares	Redemption				$291	C$420.5 million Series E, F & M.
Q1	Cleveland Cliffs	Add to position				$99	Total shares increased from 5.9m to 14.9m
Q1	Recipe	Add to position				$157	Takout of minority partner/Cara Operations
May	Recipe	Buyout of KRIF				$75	$150 million total. Take private of Keg Royalty Income Fund (Fairfax alread
May	Eurobank	Dividend to Fairfax				$142	Estimate
May	Foran Mining	Add to position				$53	FFH owns 121.9m shares. Private placement (25m x C$3/sh = C$75m).
May	Fairfax issued debt - 10 year	New issuance			$500		5.75% due 2035
May	Fairfax issued debt - 30 year	New issuance			$400		6.5% due 2055
Q2	Eurobank	Reduce position			$26		1,186 - 7.9 = 1,178.1m shares (7.9m shares at €2.886/sh = €22.8m = US$2
Q2	S&P 500 (VOO)	New position				$41	72,900 shares at $568/share
Q2	Kraft Heinz	Add to position				$39	Increased by 1.52m (from 3.36 to 4.88m shares).
Q2	Blackberry	Reduce position			$23		Decreased by 5.94m (from 46.72 to 40.78m shares).
Q2	Taiwan Semi	Reduce position			$11		Decreased by 48,000 (from 141,700 to 93,700 shares).
04-Jul	Metlen	Convert exchangeable bond					Position increased to 11.94m shares (9.2m +2.75m). Exchangeable bond co
14-Jul	Recipe	Add to position					Purchased Canadian rights to Olive Garden and all Canadian locations (8).
17-Jul	Praktiker Hellas (Greece)	Exit position					Size of Gain? Purchased for €21m in 2014 and sold for €120m to €130m.
11-Aug	Fairfax issued debt - 10 year	New issuance			$290		C$400 million (4.45% due 2035)
11-Aug	Fairfax issued debt - 30 year	New issuance			$218		C$300 million (5.1% due 2055)
29-Aug	Cumulative Preferred Shares	Redemption				$182	C$250 million Series G & H
03-Sep	John Keells #6	Add to position				$18	Increased by 230m (from 4,282 to 4,512m shares). Paid Rs 23.2/share
30-Sep	First mortgage loans	Add to position				$800	From $4.78b at Dec 31 to $5.58b at Sept 30 = increase of $800m
Q3	Blackberry	Reduce position			$20		5.39m share reduction to 35.4 million
Q3	S&P 500 (VOO)	Reduce position			$9		14,700 share reduction to 58,248.
Q3	Kraft Heinz	Add to position				$6	219,000 share addition to 5.119 million
Q3	Pfizer	Add to position				$6	239,000 share addition to 890,000
Q3	Helmerich & Payne	Add to position				$4	200,000 shares addition to 1.174 million
13-Oct	Eurolife - Life Insurance	Exit position			$945		Sale of life insurance business to Eurobank. Keeping P/C insurance business
	Eurobank's P/C ins bus in Cypress	New purchase				$69	Purchase of 45% from Eurobank.
07-Nov	Kennedy Wilson	Take Private Offer					$10.25/sh (38% permium). Awaiting response from KW special committee
24-Nov	MW Eat						3 Indian Restaurants in London; very small purchase
05-Dec	Orla Mining	Reduce position			$316		25m at C$17.64 = C$441m; still own 31.8m shares, $150m conv. notes (C$
Q4	Eurobank	Dividend to Fairfax				$65	Estimate €170m x 32.3% = €54.9 x 1.18 = US$64.8m (€0.0466/share)
Q4	Strathcona Resources	Dividend to Fairfax					C$10/share (Dec)
Q4	Under Armour	Add to position				$147	From 6.31m to 38.2m, increase of 31.9m @$4.60/share?
Dec	Gulf Insurance Group #6	Installment 2 of 4		$165			Second installment due 2 years after closing (Dec 2023).
31-Dec	Cumulative Preferred Shares	Redemption				$217	C$300 million Series I & J
Jan	Andy Barnard	Appointed - Chairman - Fairfax Insurance Group					Prem ""Brian and Andy have worked together for nearly 35 years, the last 2
Jan	Brian Young	Appointed - President - Fairfax Insurance Group					"Our expansive global (re)insurance operations will benefit greatly from th
Jan	Carl Overy	appointed - CEO - Odyssey					"Carl is a proven leader who has devoted more than two decades of his life
March	Jennifer Allen	Appointed Chief Business Officer					Was CFO
	Amy Sherk	Appointed CFO					Was CFO Fairfax India
April	Christine Magee	Appointed - Fairfax Board					Joins as indep. director. Benefit from bus. experience and entrepreneurship
June	Mr. Amitabh Kant	Senior advisor					Extensive experience in spearheading large-scale development in India.
		Total 2025	**$0**	**$165**	**$3,275**	**$3,600**	

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Q2	S&P 500 (VOO)	New position				$41	72,900 shares at $568/share
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Q3	Helmerich & Payne	Add to position				$4	200,000 shares addition to 1.174 million
13-Oct	Eurolife - Life Insurance	Exit position					Proceeds: $945M. Q2 '26 close. Sale of life insurance business to Eurobank
	Eurobank's P/C ins bus in Cypress	New purchase					Cost: $69M. Q2 '26 close. Purchase of 45% from Eurobank.
07-Nov	Kennedy Wilson	Take Private Offer					$10.25/sh (38% permium). Awaiting response from KW special committee
24-Nov	MW Eat						3 Indian Restaurants in London; very small purchase
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Q4	Strathcona Resources	Dividend to Fairfax					C$10/share (Dec)
Q4	Under Armour	Add to position				$147	From 6.31m to 38.2m, increase of 31.9m @$4.60/share?
	Commercial International Bank	Add to position				$41	From 215.5 to 237.9m shares. Price paid? Est US$1.85/share ($1.54 at 202
	Eurobank	Reduce position			$32		Share buybacks by Eurobank = 1,178 - 1,169 = 9; Price paid? Est US$3.5/sha
	Digit - Valueattics Re					$16	65% stake (from 2025AR)
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April	Christine Magee	Appointed - Fairfax Board					Joins as indep. director. Benefit from bus. experience and entrepreneurship
June	Mr. Amitabh Kant	Senior advisor					Extensive experience in spearheading large-scale development in India.
Q4	Hafize Gaye Erkan	President of Banking and Insurtech					Past positions: Goldman Sachs & Co, Co-CEO and President of First Republi
		Total 2025	**$0**	**$165**	**$2,362**	**$3,589**	

			Insurance		Non-Insurance		
			Sale	Buy	Sale	Purchase	
Date	2026	All figures are US$	Proceeds	Cost	Proceeds	Cost	Comments
Jan	Fairfax Common Share Dividend						
06-Feb	John Keells Holdings #7	Add to position				$14	Increased by 188m (from 4,512 to 4700m shares). Paid Rs 23/share
Q1	Under Armour	Add to position				$162	27 m shares x $6.00?/share from (38.2 to 65.0 m shares)
Q1	AGT Foods and Ingredients	Sponsor notes converted to equity					15.1M shares x C$22.50 = C$340M = US$ 249M
		Add to position - IPO private placement				$146	8.7M shares x C$23.00 = C$200M = US$ 146M
Q1	Foran Mining	Takeout					Takout by Eldorado Gold
Feb	Fairfax issued debt - 10 year	New issuance			$292		C$400 million (4.4% due 2035)
Feb	Fairfax issued debt - 30 year	New issuance			$183		C$250 million (5.1% due 2055)
Q1	Blue Ant Media	"VAA" payment				$25	C$34.5M "Value Assurance Agreement" payment (source: Blue Ant Feb inv
Q1	Under Armour	Add to position				$103	Increased by 15.8m (from 67.3m to 51.5m shares). Paid $6.50/share?
Q1	Wendy's	New position				$26	3.3m shares at $8.00/share?
Q1	Occidental Petroleum	Exit position			$303		Sold 6.05m shares at $50/share?
Q1	S&P 500 (VOO)	Exit position			$37		Sold 58,248 shares at $630/share?
Q1	BlackBerry	Reduce position			$32		Reduced by 9.2m (from 35.0m to 25.8m shares). Sold at $3.50/share?
07-Apr	CVW Sustainable Royalties	New purchase				$37	62.2m (54.6 + 9.6) @ C$.78/share = C$50m; plus 62.2m warrants at C$0.95
April	Eurolife - Life Insurance	Exit position			$945		Sale of life insurance business to Eurobank. Keeping P/C insurance business
	Eurobank's P/C ins bus in Cypress	New purchase				$69	Purchase of 45% from Eurobank.
Q2	Kennedy Wilson	Take Private				$1,650	$10.90/sh (45% premium). Supported by KW board - expected to close in C
	Orla Gold	Takeout					
Dec	Gulf Insurance Group #7	Installment 3 of 4		$165			Third installment due 2 years after closing (Dec 2023).
		Total 2026	**$0**	**$165**	**$1,791**	**$2,232**	