

## Management report

For the period from January 1st to December 31st, 2025, the S&P/TSX Composite Index delivered a return of 31.79% (including dividends), the S&P 500 generated a return of 12.36% (in Canadian dollars and including dividends), while the MSCI World Index returned 15.46%. The Barrage Fund's return for the same period was 16.19% before fees and 12.42% after fees.

## Market commentary

### Concern or opportunity?

The stock market is certainly not lacking in disruptive events these days: constantly changing US tariffs, wars or threats of war, and artificial intelligence that risks destabilizing a large number of companies. All of this is enough to create a great deal of anxiety! But where there are worries, there are also opportunities. It would be nearly impossible for us to invest at prices we consider attractive if everything were going smoothly.

We certainly recognize the upheavals that are about to occur with artificial intelligence. We see them unfolding before our eyes, day after day: the progress is rapid, and we must remain vigilant for all possible scenarios! As it is the topic of the moment, we have made AI the main theme of this letter.

### Artificial Intelligence in 2026: From Speculation to Industrialization

If 2023 was the year of discovery and 2024 the year of euphoria, 2026 marks the year of brutal maturity. Artificial intelligence is no longer simply a technological "sector"; it is becoming the operating system of the global economy. We are no longer in a phase of promises, but in a phase of intensive capital deployment.

By 2026, global spending on AI is projected to surpass the symbolic milestone of \$2.5 trillion, with annual growth exceeding 40%. What we are witnessing is a veritable industrial "arms race." Companies are no longer asking themselves whether AI is relevant, but rather how to leverage it to maintain their competitive edge.

AI is now seen as the primary force capable of countering demographic and inflationary headwinds. Some analysts predict it could add up to 1% more growth to US GDP by the end of the decade. For a portfolio manager, ignoring AI today would be like ignoring the arrival of electricity or the internet: it is a force of "creative destruction" that is redefining the winners and losers in every industry, from healthcare to financial services.

Today, value is concentrated on two clear fronts:

- The "Shovels and Picks": Infrastructure providers (chips, data centres, energy) who capture the immediate value of physical deployment.
- The "Effective Adopters": Companies capable of translating AI into measurable productivity gains and expanding operating margins.

These upheavals have caused a stir in certain sectors, particularly the software industry. There are fears for the survival of these companies: will they benefit from AI, or will their very survival be jeopardized?

Analysts have adopted a new word to describe what is happening: the "SaaSocalypse."<sup>1</sup> The fall of several stocks in this sector was accelerated in early February by Anthropic's (Claude) announcement regarding agents capable of automating entire workflows, challenging the "per-user" billing model. Here are some of these stocks at the time of writing:

Company	Symbol	All-Time High (ATH)	Current Price	Drawdown
Unity Software	U	\$210.10	\$18.23	-91.3%
ServiceNow	NOW	\$239.62	\$108.01	-54.9%
Atlassian	TEAM	\$483.13	\$75.13	-84.5%
Zoom Video	ZM	\$588.84	\$73.94	-87.4%
Twilio	TWLO	\$457.30	\$120.96	-73.6%
Adobe	ADBE	\$699.54	\$262.41	-62.5%
Snowflake	SNOW	\$405.00	\$168.41	-58.4%
Intuit	INTU	\$807.15	\$409.03	-49.3%
Constellation Software	CSU.TO	\$5,300.00 CAD	\$2,520.66 CAD	-52.4%
Salesforce	CRM	\$369.00	\$194.79	-47.2%
Microsoft	MSFT	\$553.72	\$392.74	-29.1%

It's difficult for us to clearly distinguish between the winners and the ultimate losers. Indeed, AI should act as "turbo" for many companies, but a weapon of destruction for others. It allows for greater, faster, and more personalized production. The risk is no longer the "impact of AI," but the cost of not adopting it, which translates into a net loss of competitiveness in comparison to AI adopters. Fortunately, the leaders of our portfolio companies are taking this risk very seriously. They significantly increased their planned capital expenditures when announcing their latest results.

Company	Estimated 2026 Capex	Change vs 2025
Amazon (AWS)	\$200B	+ 52%
Alphabet (Google)	\$175B - \$185B	+ 97%
Microsoft	\$100B+	+ 20%
Meta (Facebook)	\$115B - \$135B	+ 80%

Our companies enjoy an undeniable advantage over the entire market: massive computing infrastructure, virtually unlimited capital reserves, and exclusive access to global data.

However, investors did not necessarily react positively to the recent announcements. Shares of Amazon and Microsoft fell despite the release of their quarterly results, which we nevertheless consider to have met our expectations.

<sup>1</sup>SaaS stands for "Software as a Service." It is a software distribution model where an application is hosted by a service provider and made available to customers via the internet, usually for a subscription fee.

## *A Long-term Vision*

Amazon founder Jeff Bezos once stated during an internal meeting in 2018: "Amazon is not too big to fail. In fact, I predict one day that Amazon will fail. Amazon will go bankrupt. If you look at large companies, their lifespan tends to be 30-plus years, not 100-plus years."

In his 2020 annual letter, he expressed himself in these terms:

"Staving off death is a thing that you have to work at. Left to itself – and that is what it is when it dies – the body tends to revert to a state of equilibrium with its environment. More generally, if living things didn't work actively to prevent it, they would eventually merge into their surroundings, and cease to exist as autonomous beings. This is what happens when they die."

Bezos referred to the pull of conformity: "The world wants you to be typical - in a thousand ways, it pulls at you. Don't let it happen."

He also spoke about the price of distinction. He emphasized that remaining original requires constant energy. The world will always try to bring Amazon back to a "state of equilibrium" with its environment (i.e., become a slow and bureaucratic company). Bezos was inspired by the biological metaphor from Richard Dawkins' book *The Selfish Gene*. He explains that in nature, any organism that stops expending energy to differentiate itself from its environment eventually dies and becomes "typical."

Here, energy expenditure refers to the efforts required to remain among the leaders, to stay ahead of the pack. In the case of artificial intelligence, this translates into significant expenditures that necessitate sacrificing short-term profits for the benefit of higher long-term returns. We like this approach and are aware that not all investors share it. Invariably, this creates opportunities for us when widespread skepticism drives prices down.

Several of our leaders have recently echoed the importance of artificial intelligence. During the investor call at the end of January 2026, Mark Zuckerberg (Meta Platforms) emphasized that 2026 would be the year AI becomes an omnipresent companion.

- Vision: He no longer talks only about chatbots, but about AI agents capable of understanding your personal context (your messages, your photos, your habits) to act on your behalf.
- Key quote: "Our vision is building personal superintelligence...Soon, you'll open our apps and you'll have an AI that understands you, and also happens to be able to show you great content or even generate great personalized content for you."

Zuckerberg also stated that smart glasses (like Ray-Ban Meta) are now the fastest-growing consumer electronics product in the company's history. He believes that within a few years, it will be difficult to imagine people wearing glasses that aren't "augmented" by AI capable of seeing and hearing what you're experiencing in real time.

On Alphabet's side, faced with market concerns about the \$185 billion in capital expenditures planned for 2026, Sundar Pichai used a powerful historical metaphor:

- He compared AI to large railway networks or the American highway system.
- According to him, these infrastructures may seem costly and "irrational" at the time, but they are the indispensable foundations that unlock decades of economic growth.
- His argument: The risk of underinvesting is much greater than that of overinvesting.

At Spotify, during their presentation of annual results a few weeks ago, founder Daniel Ek stated that AI is no longer an option, but the main driver of the company's growth.

As for Microsoft, they have adopted a new measure of their productivity closely linked to AI: tokens. To reassure investors worried about Microsoft's colossal spending (more than US\$100 billion planned for 2026), CEO Satya Nadella redefined Microsoft's infrastructure:

- He no longer sees Microsoft as simply a software company, but as a "global token factory."
- The key indicator: he is now asking the market to monitor the "tokens per watt per dollar" ratio. According to him, this is the only metric that matters to prove that Microsoft is building the most efficient infrastructure in the world.

What is a token? It usually refers to a word, a punctuation mark, or a segment of a word. In English, it's estimated that 1,000 tokens correspond to approximately 750 words (roughly the length of a page of text). For Nadella, financial success depends on efficiency: how many "tokens" can Microsoft produce for every dollar invested in electricity and NVIDIA chips? The lower the cost per token, the higher the company's profit margin.

As we can see, investing massively in AI infrastructure is viewed not only as the great opportunity of the present era, but also as the way to counter the risks of AI. If we don't seek to benefit from it, we risk becoming its victims!

### *Real Estate Investment Trusts (REITs)*

Our thesis on commercial office real estate has been somewhat weakened by the recent performance of our REITs. While we have seen some return of employees to offices and interest rates have fallen, recent results have not met our expectations. Debt levels remain high, and rents are growing slowly.

It's worth noting that AI-related risks aren't the primary concern here. REITs are simply facing the usual, well-known risks: debt, the possibility of recession, and the slow return to work. However, we are increasingly seeing increased productivity among white-collar workers, thanks to AI. Several companies have announced layoffs, and this could potentially impact occupancy rates.

Conversely, we are seeing very little new construction on the market. Even a slight increase in demand could cause rental prices to rise in major urban centers, leading to increased revenue for REITs.

Since we clearly had better opportunities elsewhere, we chose to significantly reduce our holdings in some of our REITs.

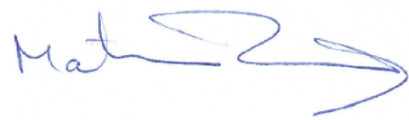
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