**Tidefall Capital LP**
**Q3 2025**
**October 17, 2025**

| | Q3 2025 | YTD 2025 | Since Inception *(Jan 21, 2020)* | Since Inception *CAGR* |
|---|---|---|---|---|
| **TIDEFALL LP** *(Net)* | 6.0% | -1.0% | 245.8% | 24.4% |
| **S&P** *(TR)* | 8.1% | 14.8% | 119.1% | 14.8% |
| **TSX** *(TR)* | 12.5% | 24.0% | 103.4% | 13.3% |

We recently re-entered Constellation Software, a Toronto-based conglomerate that acquires, manages, and grows small, specialized software businesses serving specific industries—known as vertical market software (VMS). These firms provide mission-critical software solutions in healthcare, education, local government, transportation, and many more. Once acquired, Constellation allows companies to operate largely independently, while benefiting from Constellation's capital, best practices, and long-term ownership approach. Portfolio cash flows are reinvested into additional recurring-revenue software firms, creating a compounding cycle of steady growth.

Often called the "Berkshire Hathaway of software," Constellation shares with Berkshire a philosophy of disciplined capital allocation, long-term ownership, and decentralized management. More than any other company we follow, Constellation embodies Charlie Munger's mental models framework, particularly the idea of a lollapalooza effect for long-term compounding. Founder Mark Leonard is renowned for his frugality and shareholder alignment, voluntarily taking no salary and even reimbursing the company for flying business class. Unlike most firms that hand out stock options, 75% of executive officers' after-tax bonuses must be reinvested in Constellation shares, purchased on the open market and held in escrow for an average of four years, ensuring management's interests remain tightly aligned with shareholders.

Constellation's success, however, is not merely the product of a clever acquisition strategy but of an institutional culture that relentlessly compounds both capital and knowledge. The company views itself as a perpetual learning machine—every acquisition is followed by a post-mortem, ensuring that lessons from both successes and missteps are institutionalized across hundreds of operating groups. Leonard long emphasized that Constellation's strict hurdle rates are "magnetic" in nature: once lowered, they tend to pull down future returns. As a result, discipline in capital allocation is treated as a moral principle rather than a financial guideline. Decentralization at Constellation is similarly philosophical—built on the belief that the people closest to customers should make the key decisions. Local autonomy and accountability drive both innovation and long-term resilience. Over time, Constellation has also begun experimenting beyond its traditional vertical market software base, expanding its opportunity set while preserving the cultural DNA that has underpinned its extraordinary compounding record. Like Berkshire, Constellation has provided Hall of Fame returns with free cash flow per share increasing at an incredible 27% CAGR from its IPO in 2006.

Today, the stock is experiencing its largest drawdown in history, driven by concerns around AI, slowed deal flow, and Mark Leonard's unexpected resignation (due to health). While these factors have weighed on sentiment, we believe they are overstated and adaptable. Constellation's businesses benefit from high switching costs and well-developed customer trust, which insulates them from AI-related disruptions. While deal flow has slowed, this reflects Constellation's countercyclical discipline—avoiding inflated valuations and acquiring only when prices offer compelling long-term value. The company also has an extraordinarily deep bench of managers, capable of independently running hundreds of software businesses with minimal oversight and is in excellent hands under new President Mark Miller, who has been with CSU for more than thirty years. Over the long term, Constellation's structural advantages—and most importantly the culture that Mark Leonard has built—will continue to drive durable, outsized returns for patient investors.

We acquired shares in Constellation Software at 22x 2026 adjusted earnings—a valuation higher than many of our typical acquisitions but justified by the company's durable competitive advantages, recurring revenue model, high switching costs, and deep managerial bench, all of which support long-term compounding. We also added Topicus, spun out of Constellation in 2021 to grow independently while retaining the same disciplined capital allocation and long-term operational philosophy; we purchased Topicus at 25x 2026 adjusted earnings, and its shares—currently under similar pressure—offer an attractive entry point into another high-quality, recurring-revenue business. Together, these investments reflect our willingness to pay a modest premium for exceptional businesses capable of compounding value over time.

Trevor Scott

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