



Dear Partners,

We are pleased to present our first quarterly letter for the Macfarlane Crusade Fund, LP (the “fund”). The fund made its first investments on January 19th, 2026 and deployed capital throughout the quarter as contributions were received. We are extremely grateful for the trust you have placed in us and remain committed to delivering superior returns versus the S&P 500.

In Q1 of 2026, the Macfarlane Crusade Fund, LP delivered a gross return and net return of 3.35% and 2.98% versus S&P 500’s -4.63%.

	Q1 2026	Q2 2026	Q3 2026	Q4 2026
Gross Return	3.35%			
<b>Net Return</b>	<b>2.98%</b>			
S&P 500	-4.63%			
<b>Alpha</b>	<b>7.61%</b>			

**Q1 2026 commentary and Outlook:**

We don't think there could have been a better time to launch a fund. Throughout Q1, the market environment was nothing short of eventful. Among the key themes shaping the quarter:

- AI Software and Technology Disruptions
- Private Credit Concerns
- Geopolitical Tensions in the Middle East
- Massive Revisions to Job Market Data

In light of all this, the S&P 500 has had a slow grind down, ending at -4.63% for the quarter. While the market hasn’t crashed, the volatility and dispersion have increased exponentially. We are currently witnessing a historic era of dispersion, where single-stock volatility is nearly double that of the broader index. The pairwise correlations hit 15 year lows of 13% meaning that stocks have stopped moving as a group. To put this in perspective, stocks usually have a correlation of 40 - 60%. For our fund, this validates our strategy and existence. In periods of



high volatility and dispersion, a stock picker can drastically outperform. However, volatility acts as a double edged sword and as investors it is imperative to utilize the conditions in a strategic manner - evidenced by our Q1 outperformance.

Since the launch, we've maintained a cautiously bearish macro outlook. This is driven by a few things.

The first being the structural change in big tech companies (\$AMZN, \$GOOGL, \$META, \$MSFT) balance sheets. Big tech companies historically have been very capital light meaning that they didn't have to spend a lot of money to make money. Now, these companies are expected to spend \$600 Billion in 2026. What this introduces is risk in many facets such as leverage, credit spread sensitivity, and speculative returns on investments. During Q1, we've seen the big tech companies drop in value which could be attributed to the aforementioned. At some point, a position in these companies will become attractive.

Secondly, the key driver of our economy is AI spending while the middle and lower class consumers continue to get pinched. According to the St. Louis Fed's March 2026 data, AI related infrastructure and software alone accounted for a staggering 39% of all marginal GDP growth over the last 4 quarters. This exceeds the 28% contribution seen at the height of the 2000 dot-com bubble. In our view, this represents a significant risk of a single point of failure for the U.S. economy. While we don't view a slowdown in AI spending in the near or medium term, investing in such AI related companies should be done through a strategic view. A good quote from a podcast I heard is "sell what they're selling and buy what they're buying. This refers to the hyperscalers "selling" themselves by issuing debt/equity and buying specialized chips, electricity, land/cooling, and copper/fiber optics.

Thirdly, the consumer. The resilience of the American consumer is increasingly a story of the top 10%. The top income decile now accounts for over 45% of total U.S consumer spending, while the bottom 60% of households comprise just 23%. The high income spending is entirely discretionary and hypersensitive to equity market performance. If the markets continue to tumble it could cause a massive and immediate contraction in national consumption.

Meanwhile, the bottom 60% is trapped by a high essentials to income ratio and record high debt. The majority of the population is one energy price spike away from a total discretionary shutdown that could evaporate aggregate demand.



The last point of concern is the job market. While the headline unemployment rate remains low, a closer look at the underlying data reveals a structural decaying job market. In February, we saw a record of nearly 900,000 jobs revised from previous reports showing that the hiring was significantly lower than initially reported. Full time employment has effectively stalled and multiple job holders/part time employment have hit record highs. White collar job cuts have surged 60% year over year. We are essentially witnessing a hollowed out job market with Americans forced to stitch together 3 jobs to survive, this could be a precursor to a significant contraction in GDP.

When you combine a 39% GDP reliance on AI spending, the average consumer is distressed, and a job market shedding its highest quality roles - this does not give us much confidence in the markets. Even though these variables are present, this does not and will not deter us from making strategic bets in the markets to capture alpha.

### **Investment Themes and Positions:**

Under the current economic backdrop and stage of the capital cycle, we've identified a few themes or industries that remain attractive. We remain long real assets and short software/technology, however these tilts will evolve as conditions change. Below is a quick summary of our key investment themes and positions:

1. **Energy (\$LB / \$TPL)** - We invested heavily into energy specifically into the Permian basin infrastructure as we believe this region is becoming a paramount national asset. By owning the mission critical infrastructure that powers both the global energy markets and the emerging domestic AI economy, we saw an asymmetric opportunity. We've focused on land-rich, high margin compounders like Texas Pacific (\$TPL) and LandBridge (\$LB) to capture the steady fee based upside from the continued industrialization of Texas.
2. **Alternative Financial Services (\$EZPW / \$FCFS)** - Our allocation to EZCORP (\$EZPW) and FirstCash (\$FCFS) is a strategic bet on the pawn shop sector. We see many tailwinds for pawn shops represented by the macro economic "consumer distress" and the structural bull market in precious metals paired with an attractive asymmetric risk set-up. As low-to-moderate income consumers continue to face significant headwinds traditional banks pull back on subprime lending and pawn shops become the lender of first resort. We've observed and continue to expect growth in the pawn loans



outstanding, which is the primary driver of high margin service revenue. Historically, these businesses perform the best when the middle economy feels stress. Another key driver is the appreciation of precious metals like gold and silver. As these metals have had a historic run and remain elevated, this provides a hedge like function against defaults on loans and allows for much higher margin realization on scraps. Lastly, we see limited downside as EZCORP and FirstCash remain undervalued with asymmetric risk set ups.

- 3. Defense (\$DRS)** - We remain extremely bullish in the defense sector as there's been a fundamental shift in the global order. It's apparent that the current administration is looking to seek "control" of the western hemisphere by capturing the Venezuelan leader, conducting strikes against narco terrorists in Ecuador, and setting the stage to take Greenland. Simultaneously, within NATO, European and Pacific allies are realizing they must accelerate their own defense capabilities. This creates a durable, multi-year demand cycle for defense spending both domestic and abroad. We have our eyes on a few European defense companies for potential investments. Our key investment in this sector is Leonardo DRS, a mid tier defense contractor focused on high margin modern warfare providing advanced sensing, network computing, and electric power systems. These technologies are critical for modern naval vessels, ground vehicles, and drones. We believe Leonardo DRS is best positioned to benefit from increasing defense spending and the shift toward modern, technology intensive warfare.

### **Closing thoughts:**

We remain highly constructive of the current macro and market environment and will continue to invest with two foundational principles in mind: (1) Don't lose money and (2) Invest within key themes and sectors where the market hasn't fully priced the upside. We truly believe that we are in one the best markets for active stock pickers rather than index based investing because of the heightened volatility, dispersion amongst stocks, and heightened risk in big tech.

The Q1 results are encouraging as we outperformed the index by 761 basis points, but we are not yet satisfied. We have more work to do. As always, we will remain disciplined, opportunistic, and committed to the principles that guide every decision we make on your behalf.



Thank you for trusting us with your capital. Please do not hesitate to reach out with any questions.

Sincerely,

Jakob Hawver  
Chief Investment Officer  
Macfarlane Crusade Fund, LP

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