1Q 2024

Patient Partners, LP

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Founder & Chief Investment Officer

A Differentiated View on Diversification

"It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change." - Misquote by Charles Darwin

Patient Partners advanced 14.5% gross and 14.4% net of fees in the first quarter, beating the S&P 500's 10.6% gain. Large cap growth and quality led the market. The smaller-cap Russell 2000 advanced only half as much, 5.2%. The fund performed well despite our broad all-cap exposure. Since inception, the Fund has compounded at 13.4% net per year, relative to the S&P 500's 12.6% return and the Russell 2000's 7.8% return.

We aim to deliver low-teens returns over the long term, which we believe should nicely outperform the market from here. Historically, we've achieved this goal. While higher current valuations are likely to lead to lower future market returns, we think a recovery in "classic value" should help us. We still see some pockets of the market that remain deeply undervalued and unloved. We think our flexible, opportunistic style will be an advantage.

Classic value, defined as low accounting multiples, possesses a superb long term track record. According to Fama and French data, stocks possessing the lowest quintile of P/Es produced average annual returns of 15.1% since 1951, besting the S&P 500's 11.0% returns and crushing the highest P/E's 9.4% returns.

After suffering one of its worst periods ever from 2007 through the middle of 2020, classic value seems to mostly have been abandoned or ignored. Many may not have even noticed its recent comeback. Since the

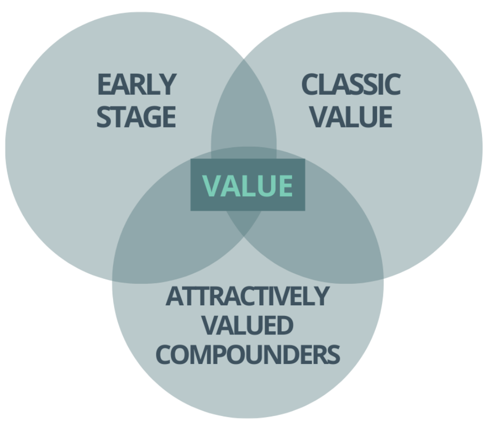
				Annualized			
As of March 31, 2024	QTD	YTD	1-Year	3-Year*	5-Year*	Since Partnership Inception (7/1/20)	Since Strategy Inception* (12/31/14)
Patient Strategy (gross)	14.53%	14.53%	47.39%	-5.64%	15.05%	16.90%	14.92%
Patient Strategy (net)	14.39%	14.39%	46.68%	-5.70%	13.46%	14.97%	13.42%
S&P 500 Index	10.56%	10.56%	29.88%	11.49%	15.05%	16.92%	12.57%
S&P 1500 Index	10.31%	10.31%	29.15%	10.99%	14.70%	16.91%	12.32%

Performance is presented net of a model fee based on class 3 interests of a 50 bps management fee and 15% performance fee. The performance information depicted herein is not indicative of future results. There can be no assurance that Patient Partners, LP's investment objectives will be achieved and a return realized. An investment in Patient Partners, LP involves significant risk, including the risk of losing all or a portion of an investment. *Includes performance for a predecessor account managed using an identical strategy by Samantha McLemore from 12/31/14 through 6/30/20 in her capacity as a Portfolio Manager of Miller Value Partners, LLC, an affiliate of Patient Capital Management, LLC. The predecessor separate account funded the Patient Partners, LP. private fund that enabled the strategy to become available to outside investors effective July 1, 2020.

end of 2020, the lowest P/E quintile stocks averaged 12.0% per year vs. the S&P 500's 10.0% and the highest P/E stocks 5.0%.

Low multiple stocks' recent outperformance might surprise you given talk of the dominance of the Magnificent 7. These darlings have continued to lead, up 16.5% on average over the period (the median is lower at 9%), but the gains didn't come at the expense of classic value's recovery.

The improved performance coincided with the popping of the Innovative Disruption Bubble, best represented by Ark Innovation ETF (ARKK). In the 3 years leading up to 2020, ARKK delivered +52% average annual returns! In typical fashion, money chased performance and was sucked away from other areas. In the 3 years following 2020, ARKK returns were -25% per year. Investors, markets, and companies have rationally resumed prioritization of cash and profits. We expect this to continue.



One of the benefits of our approach to value investing is versatility. We believe it can succeed in a variety of investing environments. We define value traditionally, as the present value of future free cash flows. We analyze the fundamentals of businesses to determine intrinsic values. Unlike most others, we also attempt to quantify long-term market expectations. What is the market telling us a company can grow and earn? We then seek clear disconnects between those market expectations and business fundamentals. In a competitive market, these opportunities are difficult to find.

Most often we find unreasonably low expectations in areas of panic and controversy, as stock prices move far more than business values. We also find them in new areas not yet as well understood by Mr. Market. We seek to diversify types of undervalued opportunities between attractively valued compounders, classic value, and earlier stage companies. Gains stem from patiently compounding and opportunistic flexibility.

Compounders tend to be market leaders whose advantages are well understood by the market. We seek to invest in attractively valued ones. Those aren't easy to find! More than ever before, people recognize the power of investing in a "wonderful business at a fair value", as Charlie Munger said. Demand and, thus, prices are high. We find these opportunities during growth scares (like recently at Illumina), or because the market may not reflect the long duration growth potential (like Amazon) creating a time arbitrage opportunity.

The low multiples of classic value stocks signal low market expectations. Many times, the discounts are well deserved. Low valuations stem from perceived problems like a deteriorating business, a turnaround, cyclicality, broad market malaise or something else. We want to be selective and invest in ones we believe the market misunderstands.

Many of our lower multiple names tend to be cyclical businesses. Secular deterioration creates value trap risk. We mostly steer clear. While we love low market expectations, we want strong business fundamentals. We don't see cyclicality as a significant long-term problem. The market's short term, myopic focus on volatility can create amazing opportunities in cyclical companies. We especially like to monetize volatility in this group.

JP Morgan is our best example. We've owned it for over a decade. I wrote about it in the fall of 2011 after it got walloped in the Eurozone debt crisis selloff. People feared the worst for all banks after the financial crisis (classic recency bias). JP Morgan made money even during the financial crisis, though. We saw it as a high-quality company mischaracterized by the market as overly “risky.” Since September 2011, JP Morgan has compounded at 19.7% per year vs. the S&P 500’s 15.3%. We see parallels today in a name like Delta Airlines which we view as a high quality company that is misunderstood by the market.

Finally, we’ve always invested in companies earlier in their life cycle. The market misunderstands these companies more often due to their short history. Amazon was misunderstood when our firm first invested. People compared it to retail companies when the business model more closely resembled Dell Computer’s distribution business. Its business evolved significantly and unpredictably over the years, most notably with the growth of Amazon Web Services (AWS). We’ve benefited from being open-minded and patient. Coinbase is a current example. Most of its historical earnings have been generated by the exchange business, which is how people categorize it. We see it as a platform for crypto. It’s still early days so we expect the crypto market and company will continue to evolve.

This portion of the portfolio has return dynamics more like venture portfolios. Most venture companies fail, but a few big winners drive returns. Public companies are more mature so the dynamics shouldn’t be as extreme, but we expect to be wrong more often with these investments. Farfetch, which I’ve written extensively about, is a prime example. We size positions accordingly with smaller initial sizing.

Our flexible mandate provides broad hunting grounds that have served us well over our long history, and we expect it will continue to do so in the future.

As for our view on the markets, we will be brief. The secular bull market that began in March 2009 continues. While a cyclical bear market disrupted the advance in 2022, the cyclical bull that started in October 2022 shows no signs of deterioration.

It is widely rumored that Einstein decreed long-term wealth compounding as the Eighth Wonder of the World. Reaping its benefits requires patience.

While we believe the path of least resistance for the market is higher, we’ve used recent strength to take our leverage down notably. At year end, we were ~127% gross long. At the end of the first quarter, this number was down to 121.5% gross long. After quarter-end, we further reduced borrowings to a current level of 114% gross long. If prices and sentiment continue higher, we expect to further reduce our borrowings. Our main reason for doing so is to be able to add more aggressively in any market weakness.

We think leverage is a useful tool in the toolkit. We utilize leverage to enhance returns and monetize market volatility. Some worry about the risk it creates concluding you should never use any. Many tools, like automobiles and hammers, come with risks. Those risks need to be assessed relative to the benefits and managed accordingly. Most people choose to use automobiles because of their massive utility. Crash risk is real, but driving is mostly safe with clear benefits. Leverage can enhance returns if used correctly. It also allows us to disconnect the buy and sell decisions. We, like most investors, have proven more edge with the former. We aim to focus on the things we’re good at.

With debt, risk varies in direct proportion to the amount used. The risk of $1 of borrowings against $100M in assets rounds to zero. Most high-profile failures caused by leverage resulted from borrowings well in excess of equity. Long Term Capital Management had leverage over 25x its equity at the beginning of 1998. When assumptions about volatility and correlations proved off, asset declines wiped out equity.

Nearly three-quarters of closed-end funds use leverage. The SEC limits the amount of debt to 33% of assets, which provides significant safety. I don’t recall hearing of a closed-end fund whose leverage wiped it out. Our leverage since inception has averaged 21%, lower than SEC limits.

For most of our history, the cost of debt was low, as were valuations. Sentiment was subdued and we were in a secular bull market. Those are the perfect conditions to be levered long. We are still in a bull market, but valuations, cost of debt and sentiment are higher. In this environment, you can expect us to use leverage more opportunistically.

We think carefully about leverage risk. We do routine stress testing utilizing the betas of our holdings. We conservatively assume betas increase in a selloff. We want to be able to withstand the worst bear market in history (financial crisis -58% returns) without a margin call that forces us to sell. We prefer to be buyers at those prices.

As always, we appreciate the support of our clients and will work our hardest to deliver excellent returns.

Samantha McLemore, CFA

April 8, 2024

ABOUT THE FIRM

Patient Capital Management is focused on serving the best interests of its Partners and Institutional clients. Founded in 2020, Samantha McLemore serves as the majority owner, managing member and portfolio manager. The Firm manages assets in its value-oriented investment strategy and seeks to generate high, long-term returns for its clients.

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Data Sources: Bloomberg, Patient Capital Management, and Kenneth R. French Data Library at the Dartmouth Tuck School of Business.

The portfolios are constructed at the end of June. E/P is earnings before extraordinary items at the last fiscal year end of the prior calendar year divided by Market Cap at the end of December of the prior year.

Data Sources: Bloomberg, Patient Capital Management, and Kenneth R. French Data Library at the Dartmouth Tuck School of Business

The low multiple portfolios are constructed at the end of June. E/P is earnings before extraordinary items at the last fiscal year end of the prior calendar year divided by Market Cap at the end of December of the prior year. Annual returns are from January to December. Cheap: highest quintile of E/P; Expensive: lowest quintile of E/P. Data as of 12/31/23.

The S&P 500 Index is a market capitalization-weighted index of 500 widely held common stocks. Investors cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges. The Russell® 2000 Index is a small-cap stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index. Magnificent 7 is a group of stocks made up of mega-cap stocks Apple (AAPL), Alphabet (GOOGL), Microsoft (MSFT), Amazon.com (AMZN), Meta Platforms (META), Tesla (TSLA) and Nvidia (NVDA). A multiple is simply a ratio that is calculated by dividing the market or estimated value of an asset by a specific item on the financial statements. Earnings Yield is the inverse of the P/E ratio. Earnings yield is one indication of value; a low ratio may indicate an overvalued stock, or a high value may indicate an undervalued stock. Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock and serves as an indicator of a company's profitability. Alpha, often considered the active return on an investment, gauges the performance of an investment against a market index or benchmark that is considered to represent the market's movement as a whole. The excess return of an investment relative to the return of a benchmark index is the investment's alpha.