


Patient Capital Quarterly Commentary

Concern over rising inflation was the major theme during the second quarter of 2022. Investors started to conclude that inflation was not going to be transitory and instead might be a persistent problem into the future. Consumer Price Index (CPI) readings were reported at approximately eight per cent or more in Canada, the U.S. and Europe during the second quarter. Supply chain issues because of the war in Ukraine and the pandemic, high energy and food prices and very tight labor markets all contributed to the multiyear high inflation rate. As a result, the focus was on how high inflation would go and how much would interest rates have to rise to tame inflation. Central bankers may have been late in anticipating the significant impact that very loose fiscal and monetary policies over the past several years would have on inflation. They may now have to raise interest rates at a much faster rate and much higher than originally thought. As a result, equity investors became fearful that the economy would experience a severe recession or see a repeat of the stagflation that occurred during the 1970's.

The war in Ukraine took a back seat to the concerns over inflation and interest rates in the second quarter. However, the impact of the war on agricultural supplies and commodities continued to remain unabated.

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European countries, in particular Germany and Italy, are extremely vulnerable to gas shortages in the coming months as Russia threatens to cut off gas supplies to Europe in response to Western nations' sanctions. This threat has been a significant contributor to rising energy prices and will likely keep gas prices at elevated levels for some time.

During the second quarter of 2022 many markets around the world experienced negative returns. The MSCI (USD) World Index declined 16.05%¹ while the S&P 500 (USD) dropped 16.10%². The S&P/TSX Composite Index fell 13.19%³. The second quarter declines brought the indices into negative territory on a one-year basis: the MSCI (USD) World Index, S&P 500 (USD) and S&P/TSX Composite Index fell 13.94%, 10.62% and 3.87% respectively. The Canadian market performed better on a relative basis due to the strength of the Energy sub-sector over the past year.

Despite the declines in equity markets during the second quarter and negative one year returns equity markets are still expensive. Market valuation indicators such as the Shiller P/E Ratio and the Market to GDP Capitalization Ratio remain near all-time highs. High valuations combined with rising interest rates imply substantial risk for equity markets today and into the future.

We believe Lysander-Patient Capital Equity Fund (the "Fund") is well positioned for current market conditions. As of June 30th, 2022, the portfolio consisted of approximately sixty per cent cash. As of June 30th, 2022, the Fund's equity dividend yield on equities of 4.59% and other valuation statistics were far more attractive than both the S&P/TSX Composite and S&P 500. During the quarter, the Fund added to several of its holdings, drawing down its cash holdings by approximately ten per cent. Series F of the Fund posted a return of -2.9% during the quarter. The Fund's large cash balance helped the Fund outperform the MSCI, S&P 500 and S&P/TSX Composite indices by substantial margins.

On November 1, 2021, the portfolio manager of the Fund changed from 18 Asset Management Inc. to Patient Capital Management Inc. and the investment objective of the Fund no longer had a Canadian equity securities focus. These changes could have affected the performance of the Fund had these changes been in effect throughout the performance measurement period.

1. Source: MSCI.

2. Source: S&P.

3. Source: S&P/TSX.

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