



Patient Capital
Management

THE RUMORED DEATH OF VALUE INVESTING: COMPLETE FABRICATION OR GRAINS OF TRUTH?

Samantha McLemore, CFA

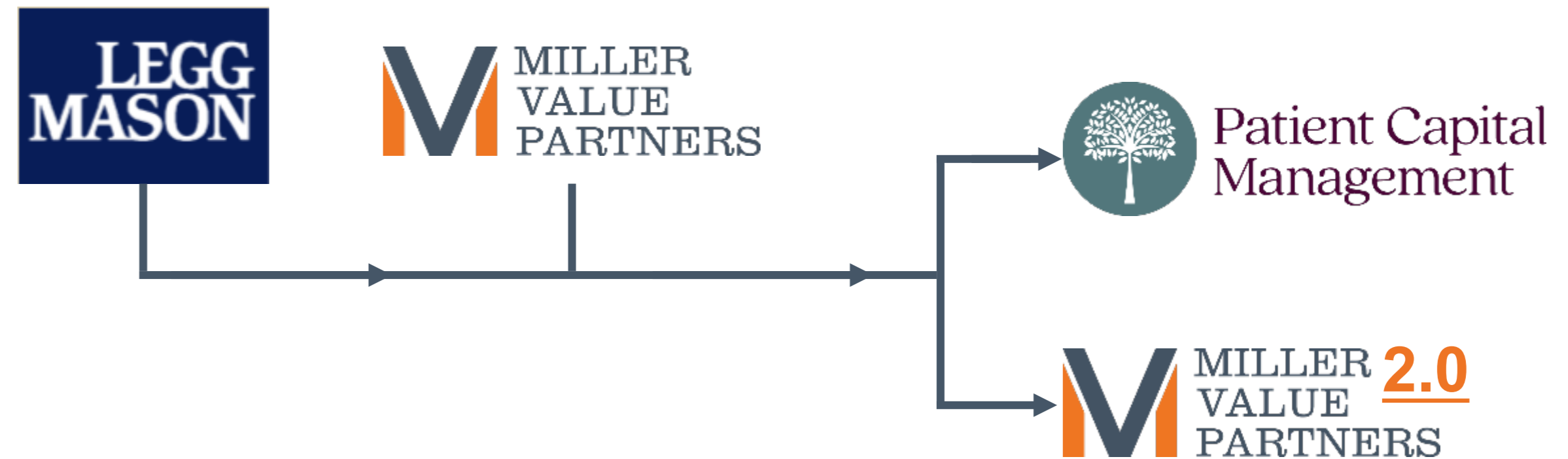
Patient Capital Management, LLC
Baltimore, MD

FIRM OVERVIEW

Next Generation Value Investors

- **Location:** Baltimore, Maryland
- **Employees:** 9
- **Investment Team:** 4
- **Strategies:** Mutual Fund, Separately Managed Accounts, Private Fund
- **Assets Under Management:** \$1.9B

**A Firm Evolved
from a Philosophy &
Process Developed
Over Four Decades**



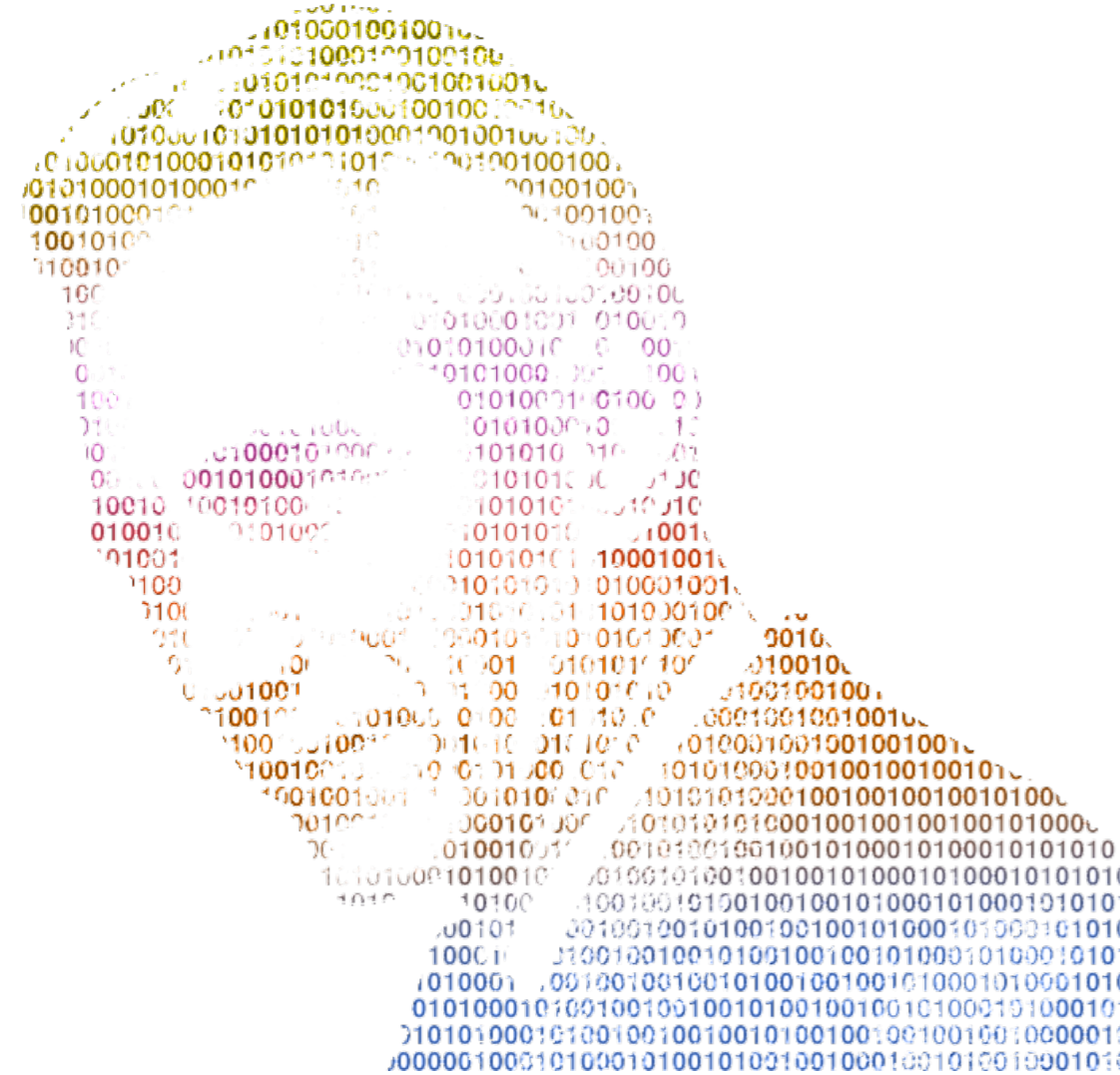
Outperforming the Market Through Cycles

What's your edge?

Informational

Analytical

Behavioral



Fundamentals and Expectations

The Main Determinant of Market Returns

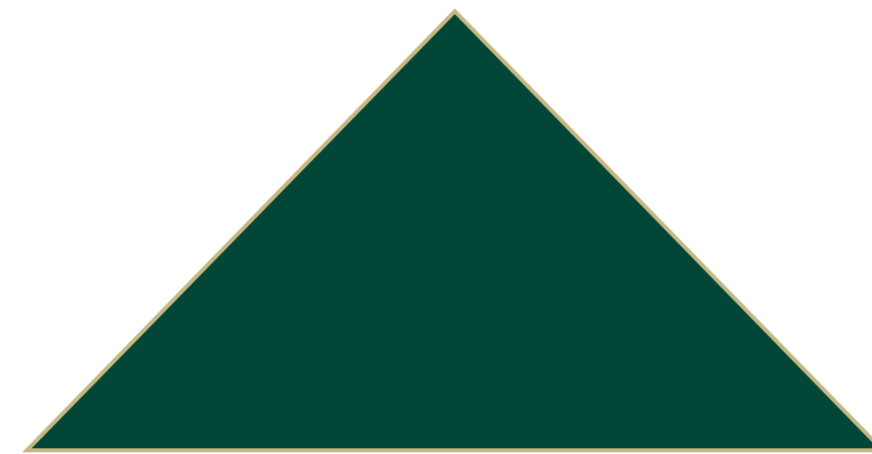
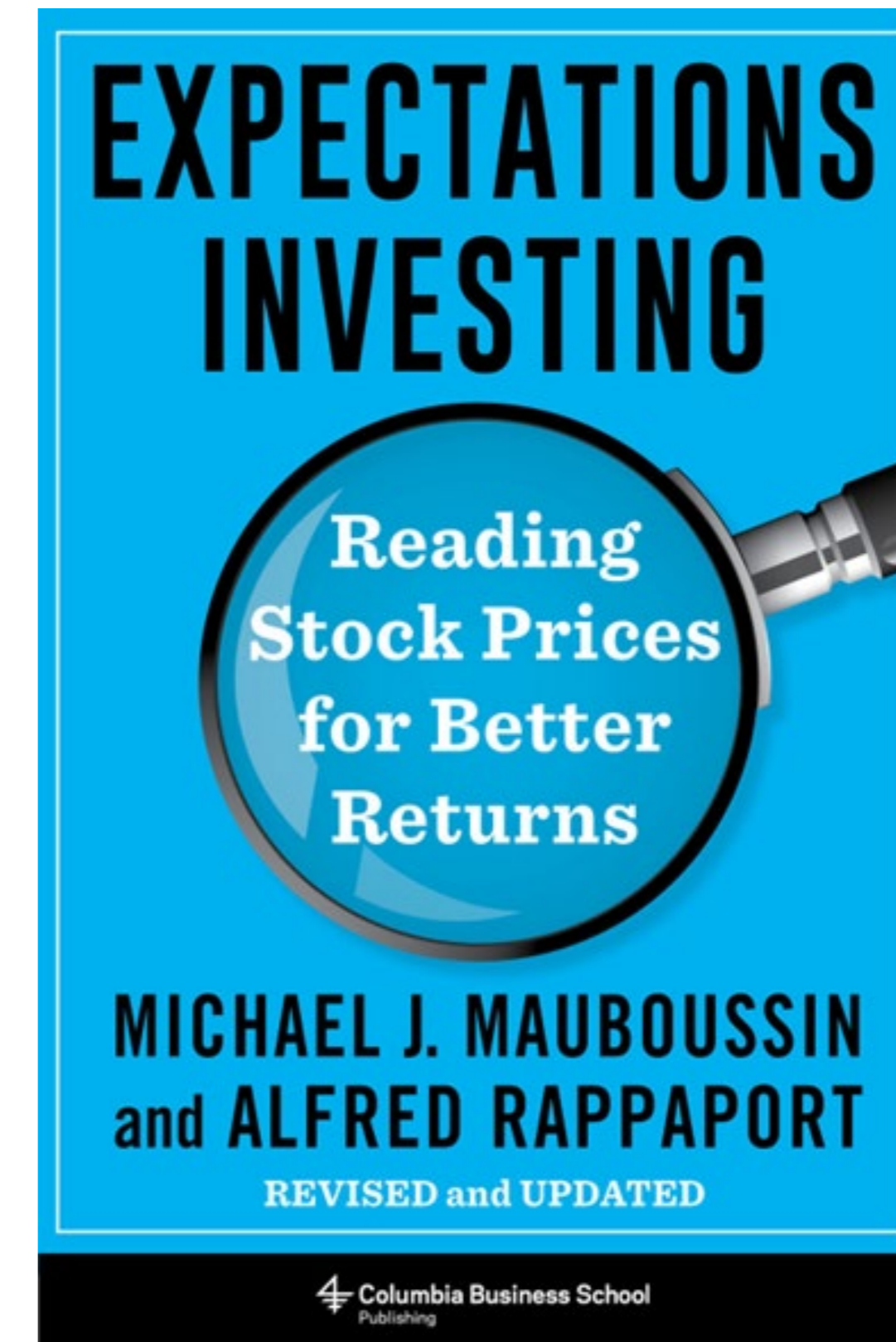


Fundamentals

Economic model, competitive strategy analysis; governance alignment of interests

Expectations

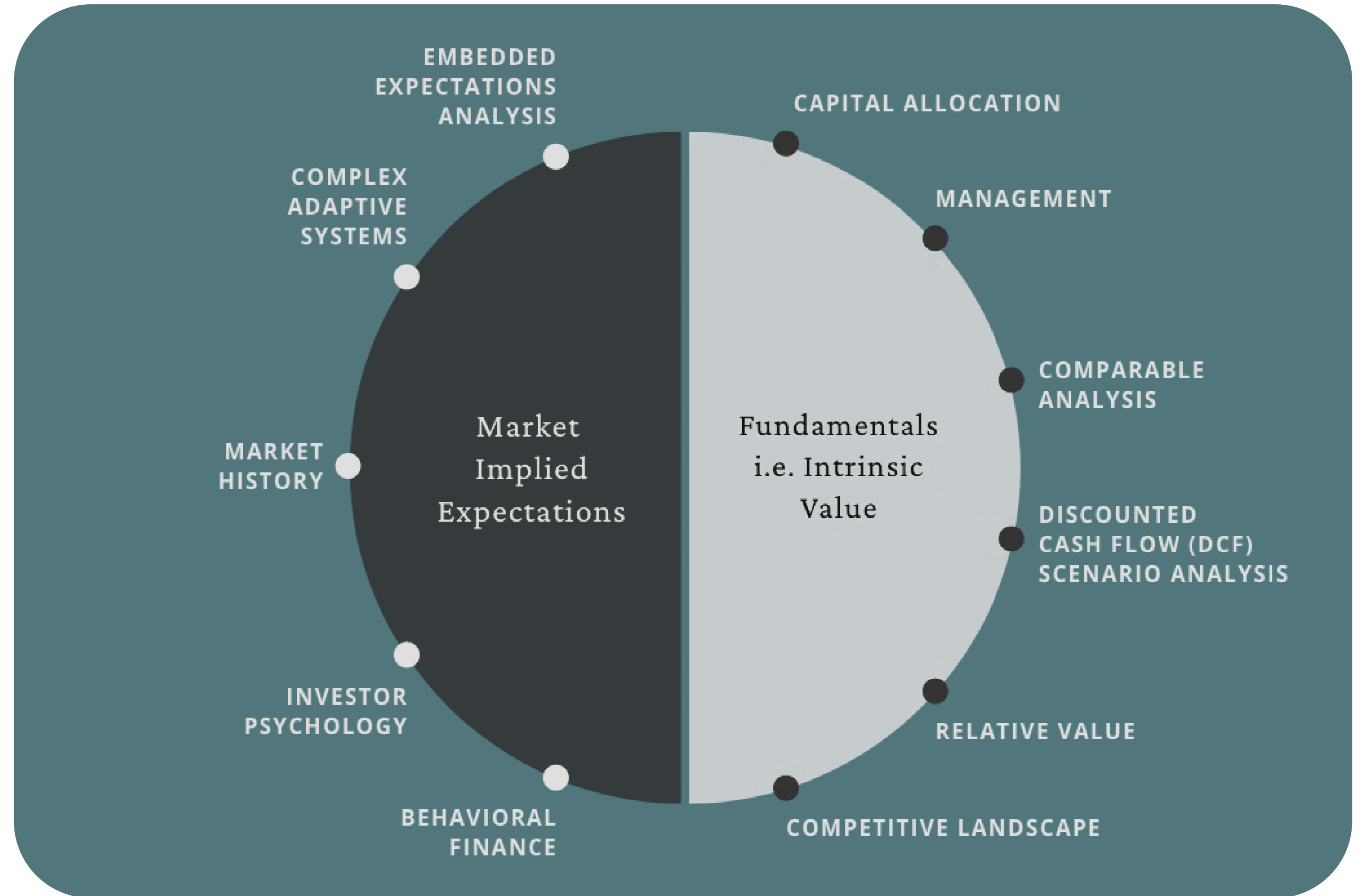
Market-implied expectations; “narrative economics;” buy & sell side expectations



Analytical Framework

Robust process using a diverse array of methods to attain an analytical and behavioral edge

- We source ideas systematically, considering out-of-favor industries and companies.
- We analyze factors that affect a company's free cash flow, the core to our understanding of a company's intrinsic value.
- We build concentrated portfolios from the bottom up based on our assessment of risk/return factors.



IS VALUE INVESTING REALLY DEAD?



"Do we have a place for our portfolio's ashes?"

CartoonStock.com

WHAT WE KNOW FOR SURE

Value Investing Has a Long Track Record of Success

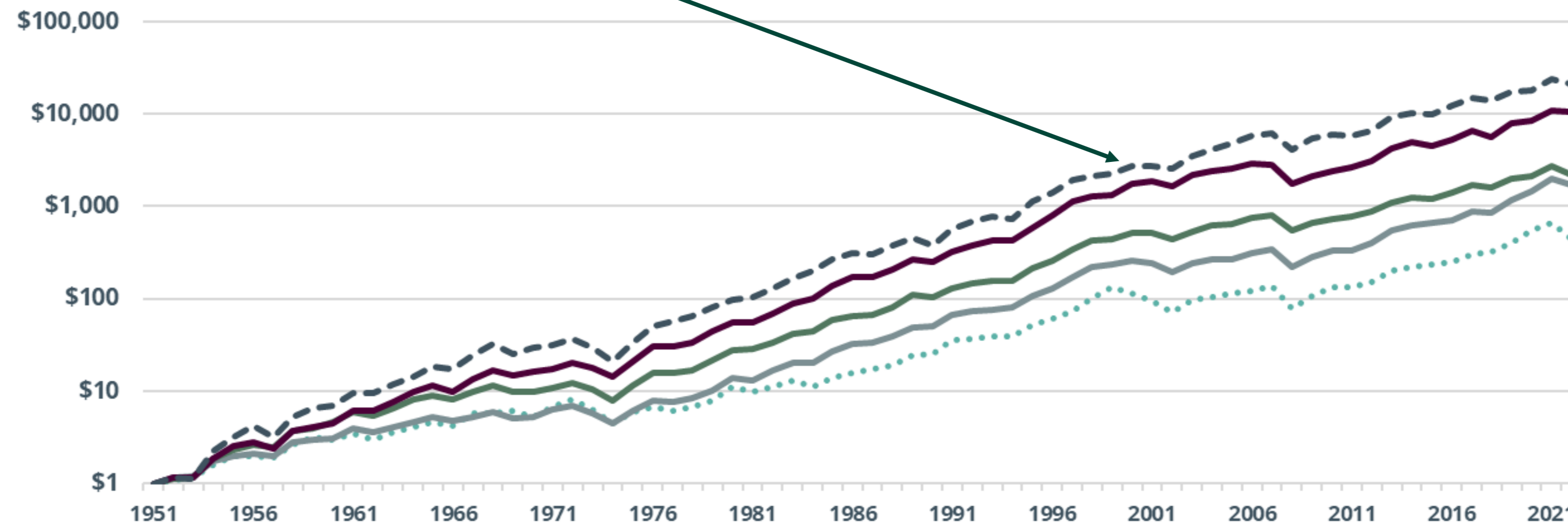
Since 1951, low P/E stocks beat the market by ~40% and beat high P/E stocks by nearly 60%

Annualized Returns		
Quintile	1951-2023	2007-2020
Lo 20	9.40%	11.30%
Qnt 2	11.17%	11.72%
Qnt 3	11.60%	7.71%
Qnt 4	13.85%	8.84%
Hi 20	15.12%	8.60%
Market	10.99%	9.77%

Cheaper Does Better

**Annualized Returns:
Earnings Yield**

We ended the worst period for value in mid-2021. Low P/E underperformed the market and high P/E.



..... Lo 20 — Qnt 2 — Qnt 3 — Qnt 4 - - - Hi 20



Ben Graham Centre for Value Investing

Value Investing: A Case in Reflexivity

“Value investing, as an industry, is **unlikely to ever fully recover.**”

“Value is just not a consideration for most investment money that’s out there. There’s all the machine money and algorithmic money which doesn’t have an opinion about value it has an opinion about price: ‘What is the price going to be in 15 minutes and I want to be ahead of that.’”

- **David Einhorn, Greenlight Capital**

“We no longer favor allocating to value
stock ETFs within the Core portfolio
strategy...”

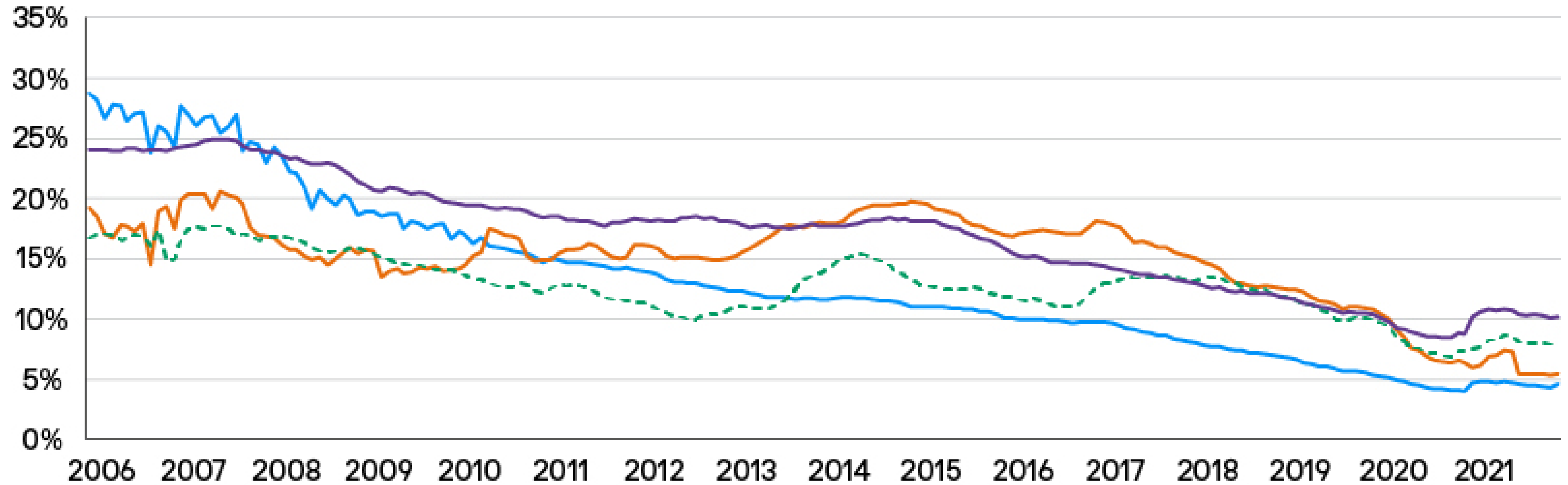
- **Betterment**

“We’ll no longer use the “value” factor
in our service, as research suggests it is
no longer as effective as it once
was.”

- **Wealthfront**

Value Investing: A Case in Reflexivity

AUM of Value funds as a percentage of large cap funds, by region

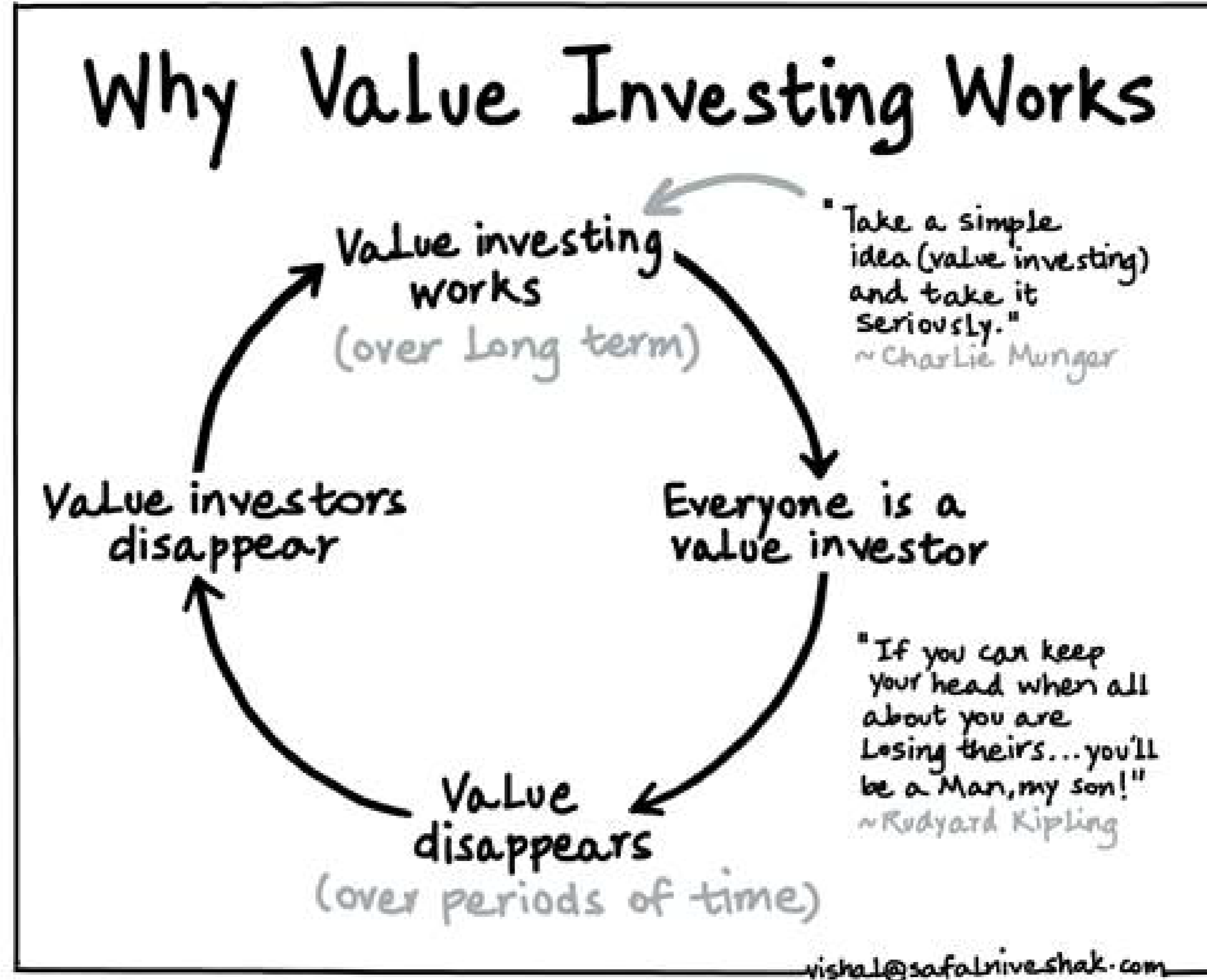


- Global Value funds as % of Global OE Large cap funds
- US Value funds as % of US OE Large cap funds
- Europe Value funds as % of Europe OE Large cap funds
- Int'l Value funds as % of Int'l OE Large cap funds

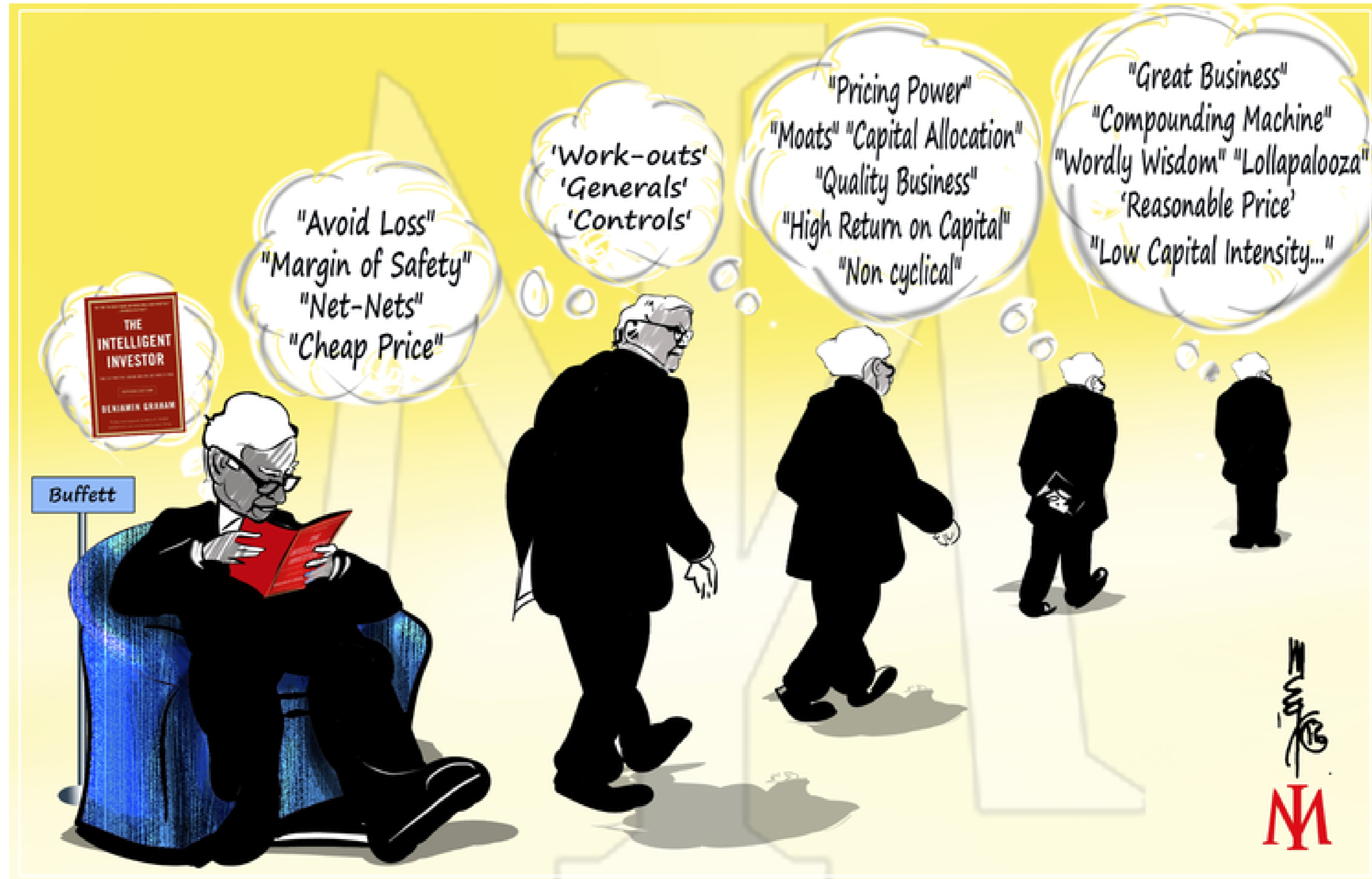
Sources: JP Morgan Asset Management, Morningstar. Data as of 31 December 2021.

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The Behavioral View of Market Cycles



The Evolution of Value Investing

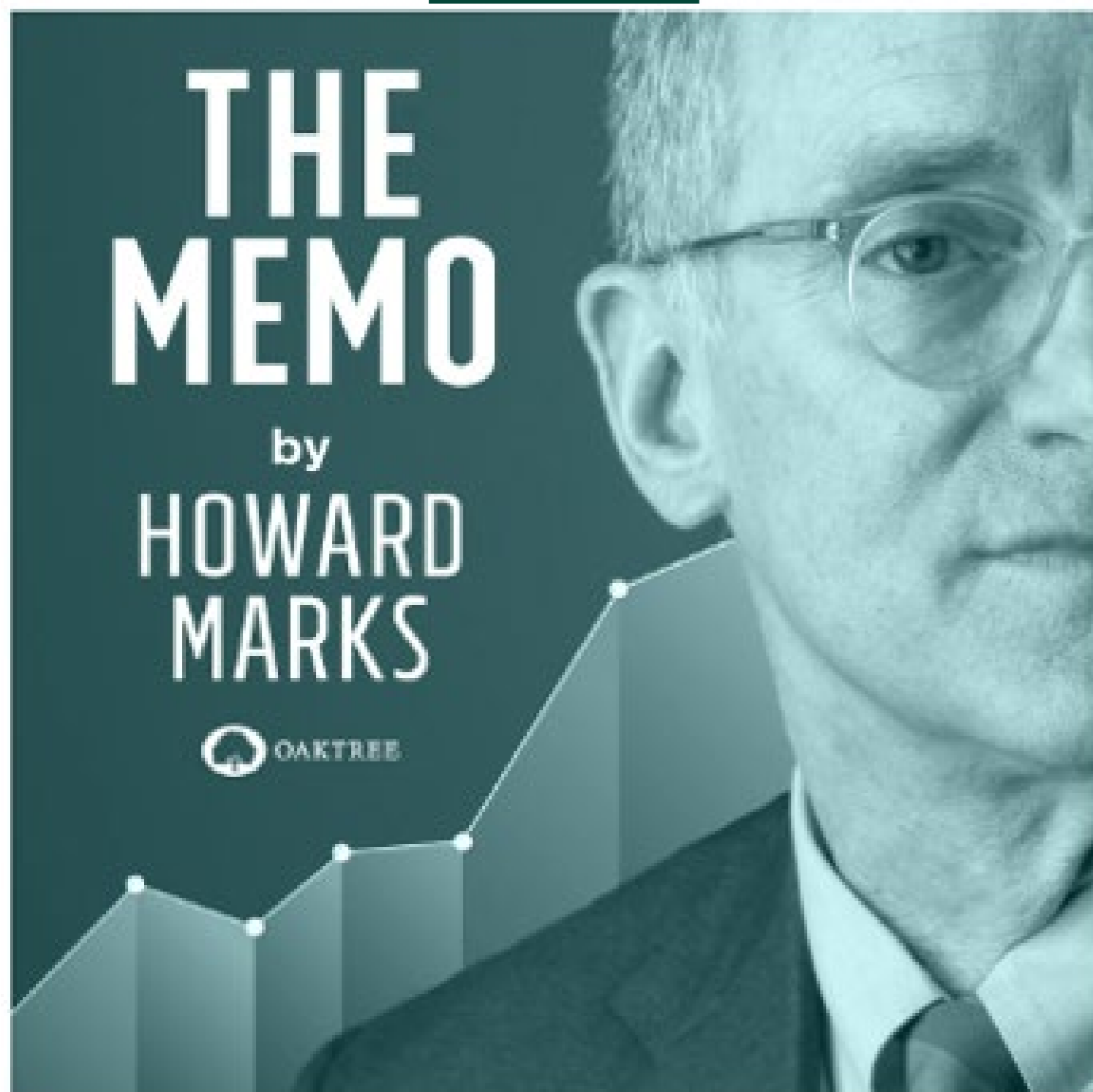


Importance of Interest Rates

A New Regime in Markets

Sea Change

Dec 2022



“Interest rates are to asset prices like gravity is to the apple. They power everything in the economic universe.”

Warren Buffett,
2013 Berkshire Hathaway
Annual Meeting

“I remember only two real sea changes. I think we may be in the midst of a third one today.”

1st

“risk wasn’t necessarily avoided, but rather considered relative to return and hopefully borne intelligently.”

2nd

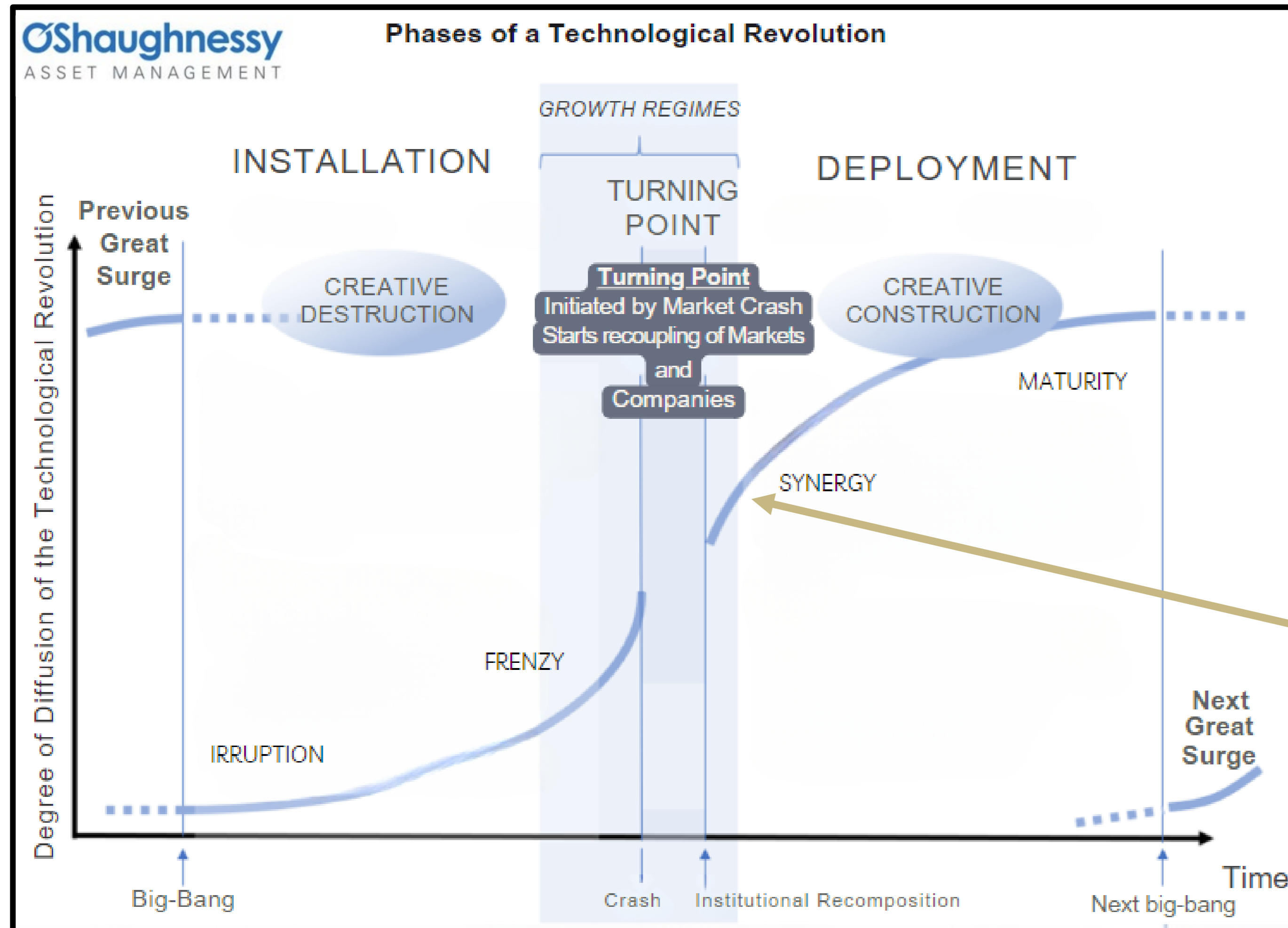
“(Volcker’s) actions ushered in a declining-interest-rate environment that prevailed for four decades.”

Now

“Interest rates aren’t about to decline by another 2,000 basis points from here.”

Value is Dead, Long Live Value

TECHNOLOGICAL REVOLUTIONS = TURNING POINTS



Technology Revolutions come in long waves.

Value investing has historically outperformed after these turning points.

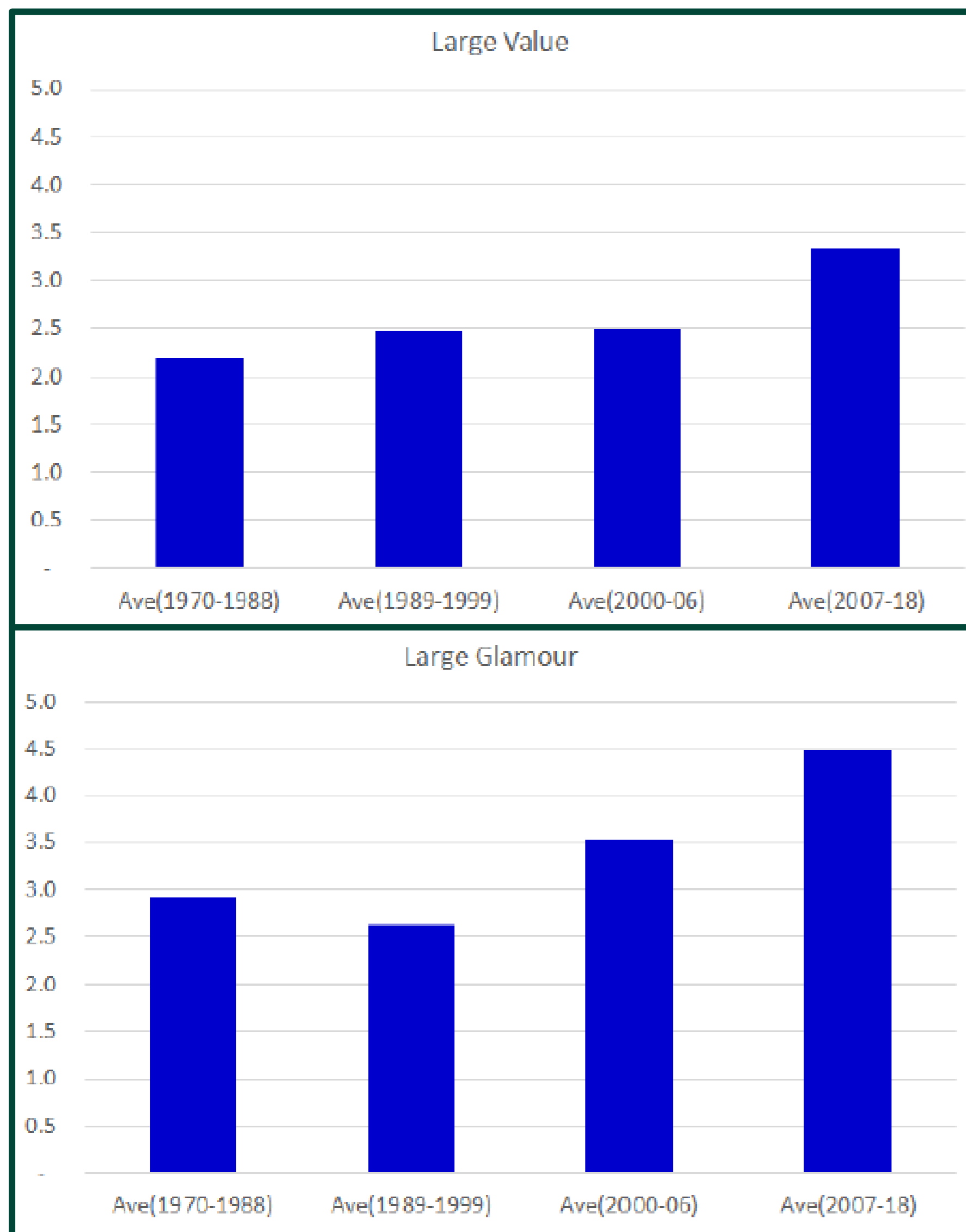
The Speed of Mean Reversion Matters

“The main behavioral explanation for value stocks’ long-run outperformance is excessive extrapolation by investors of multiyear growth rates. In reality, **growth mean reverts faster than the market expects, making growth stocks more likely to disappoint.**”

- **Antti IImanen, AQR Capital Management**

Slower Mean Reversion

Figure 7: Increases in Length of Stay in the Same Portfolio Category, 1970-2018



Explaining the Recent Failure of Value Investing

*Baruch Lev**

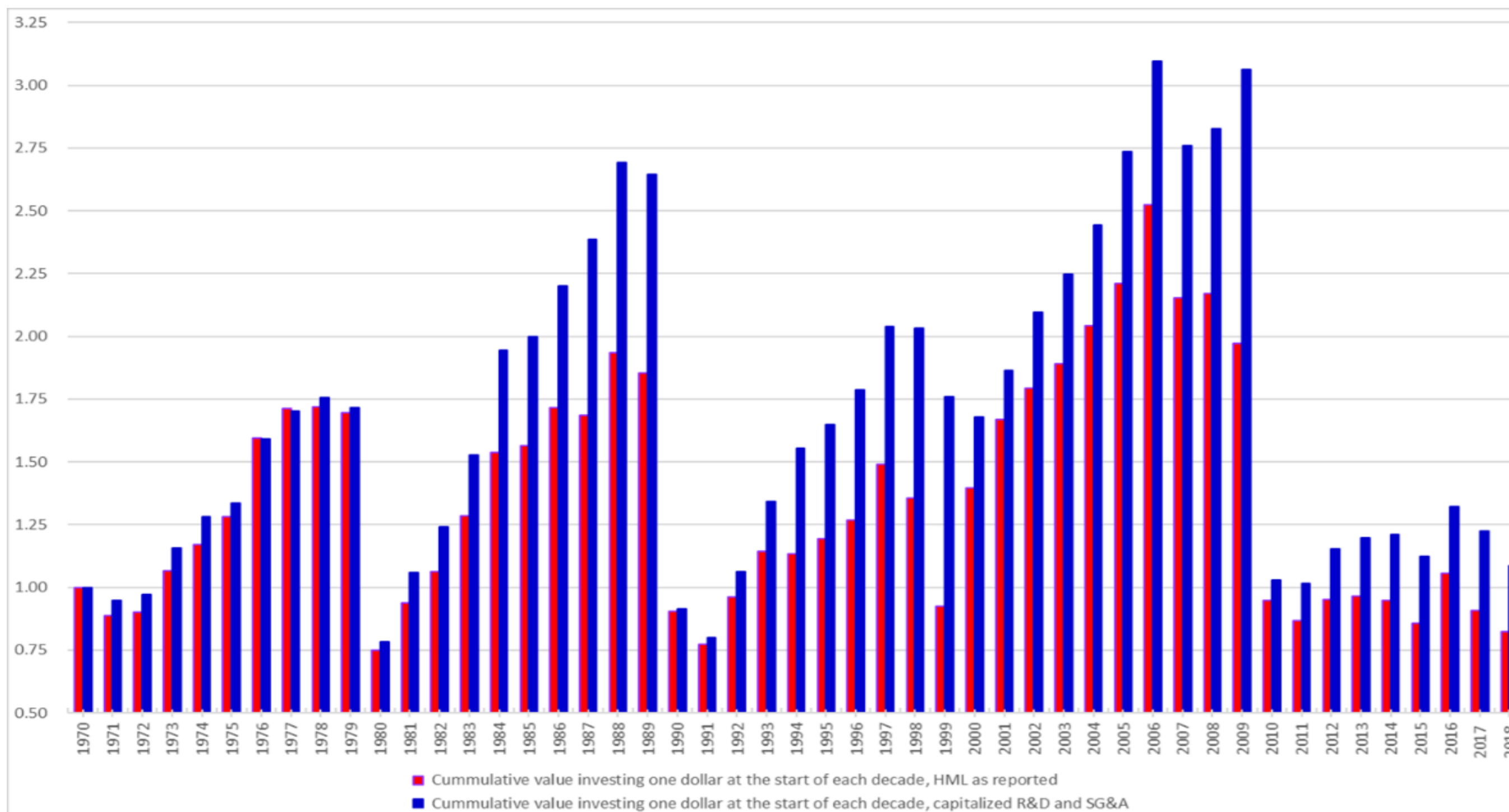
Philip Bardes Professor of Accounting and Finance, Stern School of Business, New York University

Anup Srivastava

Canada Research Chair, Haskayne School of Business, University of Calgary

Intangibles Impact Accounting Metrics

Cumulative Returns to the Original and Adjusted Low P/B Value Strategy in Each Decade, 1970-2018



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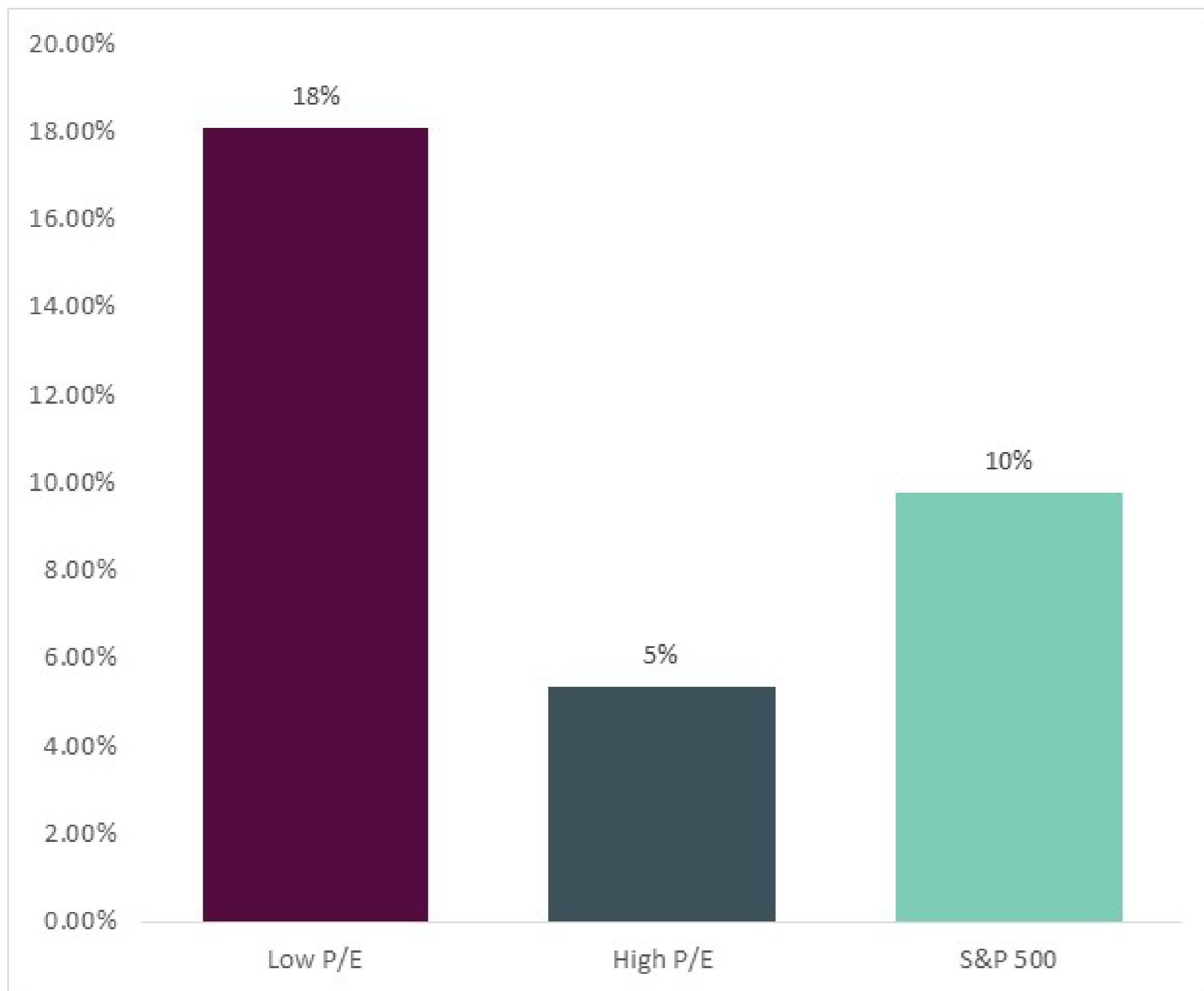
Anup Srivastava

Canada Research Chair, Haskayne School of Business, University of Calgary

WHAT WE THINK ABOUT THE FUTURE

History Suggests Value Should Do Well

Average Annual Returns Following Periods of Underperformance



After previous periods of underperformance, Value has rebounded aggressively, returning on average 18% annually.

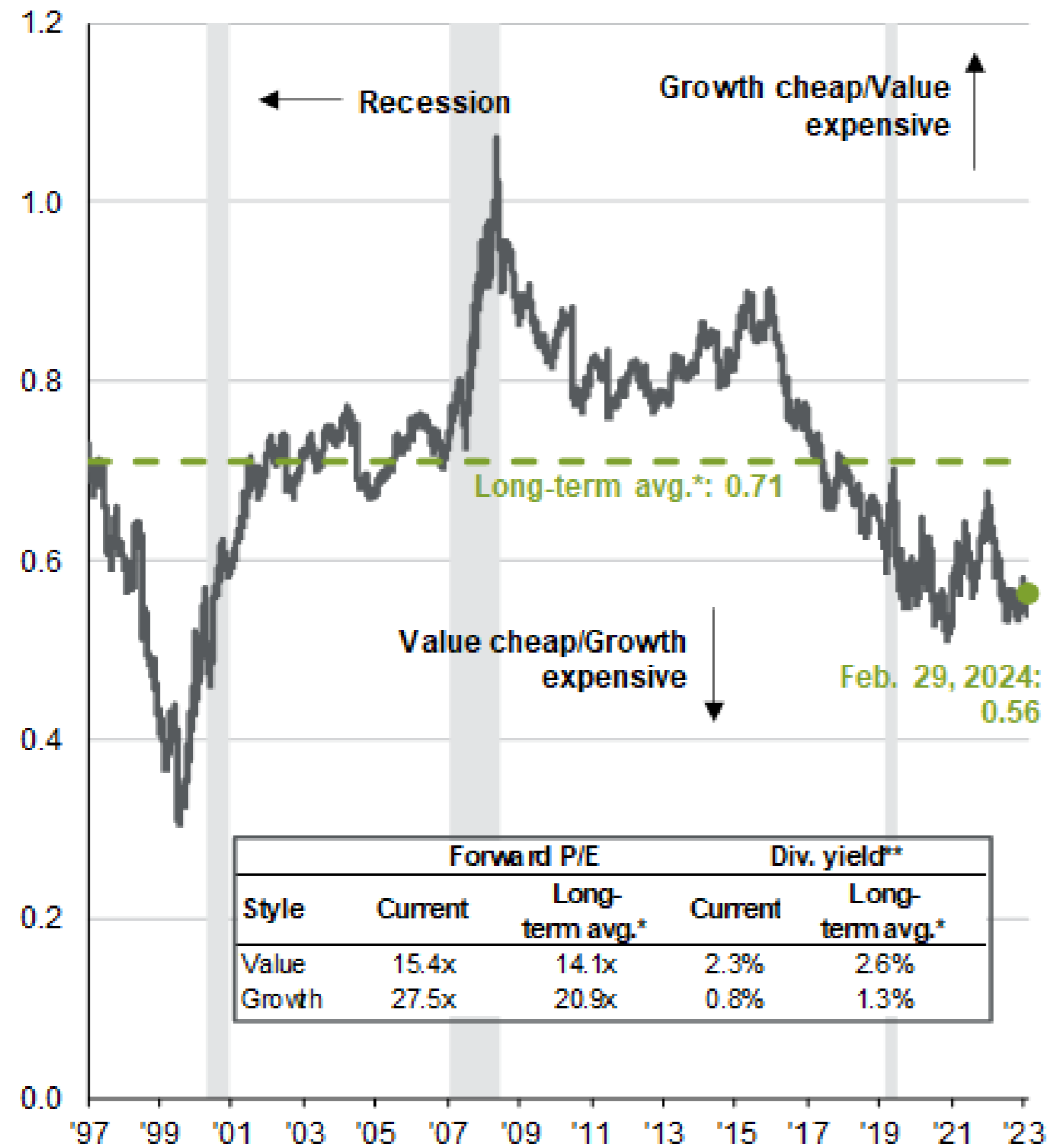
- Almost **double** the Market's 10% return
- **More than 3x** the most expensive stocks' 5% return

Since the end of 2020, Low P/E (12% Return) beat High P/E (5% Return) and the Market (10% Return).

Value vs. Growth: Valuations and Interest Rates

Value vs. Growth relative valuations

Rel. fwd. P/E ratio of Value vs. Growth, 1997 - present



Value vs. Growth in different interest rate environments

Annualized total return by 10-year Treasury rate ranges, 1979 - present



Source: FactSet, FTSE Russell, NBER, J.P. Morgan Asset Management.
 Growth is represented by the Russell 1000 Growth Index and Value is represented by the Russell 1000 Value Index. (Left) *Long-term averages are calculated monthly since December 1997. **Dividend yield is calculated as the next 12-month consensus dividend divided by most recent price. (Right) Returns are calculated by annualizing the average monthly performance during each interest rate range.
 Guide to the Markets - U.S. Data are as of February 29, 2024.

Magnificent 7 Fundamentals

When Do They Stop Leading?

Magnificent 7 Fundamentals 2013 - 2023							
Security	Growth Rates			Return on Invested Capital		Price to Earnings	
	Revenue CAGR	Adjusted Basic EPS CAGR	FCF Per Basic CAGR	Beginning ROIC	Ending ROIC	Forward 1 Yr 2013 P/E	Forward 1Yr 2023 P/E
Alphabet Inc.	19%	20%	21%	18%	29%	28x	20x
Amazon.com, Inc.	23%	58%	30%	5%	11%	N/A	30x
Apple Inc.	8%	16%	15%	39%	62%	11x	29x
Meta Platforms, Inc.	33%	40%	31%	19%	26%	49x	17x
Microsoft Corporation	11%	15%	13%	28%	33%	14x	31x
Nvidia Corporation	31%	52%	46%	10%	76%	14x	20x
Tesla Inc.	47%	N/A	131%	-6%	13%	N/A	88x
Average	24%	33%	41%	16%	36%	23x	34x
<i>Average (Ex Tesla Inc.)</i>	21%	33%	26%	20%	40%	23x	25x
Median	23%	30%	30%	18%	29%	14x	29x
S&P 500	5%	7%	5%	7%	8%	15x	20x

Magnificent 7 Expectations			
Implied Expectations			
Security	20-Yr Revenue CAGR	10-YR Revenue CAGR	Operating Margins
Alphabet Inc.	4%	6%	33%
Amazon.com, Inc. *	7%	11%	12%
Apple Inc.	5%	7%	30%
Meta Platforms, Inc.	7%	13%	38%
Microsoft Corporation	9%	17%	42%
Nvidia Corporation	15%	26%	54%
Tesla Inc.	20%	40%	9%
Average	10%	17%	31%
<i>Average (Ex Tesla Inc.)</i>	8%	13%	35%
Median	7%	13%	33%

Source: Patient Capital Management, LLC. Bloomberg. (Trailing 12 Month Revenue, Trailing 12 Month Basic Adjusted EPS, Trailing 12 Month Basic Adjusted Free Cash Flow per Share, Trailing 12 Month ROIC, 12.31.2013 Price / 2014 Basic Adjusted EPS, and 12.31.2023 Price / 2024 Forward Year Basic Adjusted EPS Estimates.)

Magnificent 7 Expectations based on 3.28.2024 prices: AAPL: \$171.49, AMZN: \$180.25, GOOGL: \$150.81, META: \$485.92, MSFT: \$420.03, NVDA: \$902.85, TSLA: \$175.78

*Margins based on 2023 results expected for Amazon.com, Inc. which uses a normalized margin

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Better Value: GM vs. TSLA

Fundamentals

Current	3Yr Forward		3Yr Forward	
	GM	CAGR	TSLA	CAGR
Price	\$45.37		\$176.83	
Market Cap	\$52,411		\$563,358	
Enterprise Value	\$53,005		\$544,812	
2023A				
Revenue	\$171,842	3%	\$96,773	17%
Operating Profit	\$14,250		\$8,891	
<i>Operating Margin</i>	8.3%		7.5%	
Pretax Income	\$13,963	4%	\$9,973	26%
<i>Y/Y</i>	5%		-27%	
<i>Pretax Margin</i>	8.1%		8.6%	
FCF/share	\$5.59	7%	\$3.09	4%
ROIC	18%		26%	

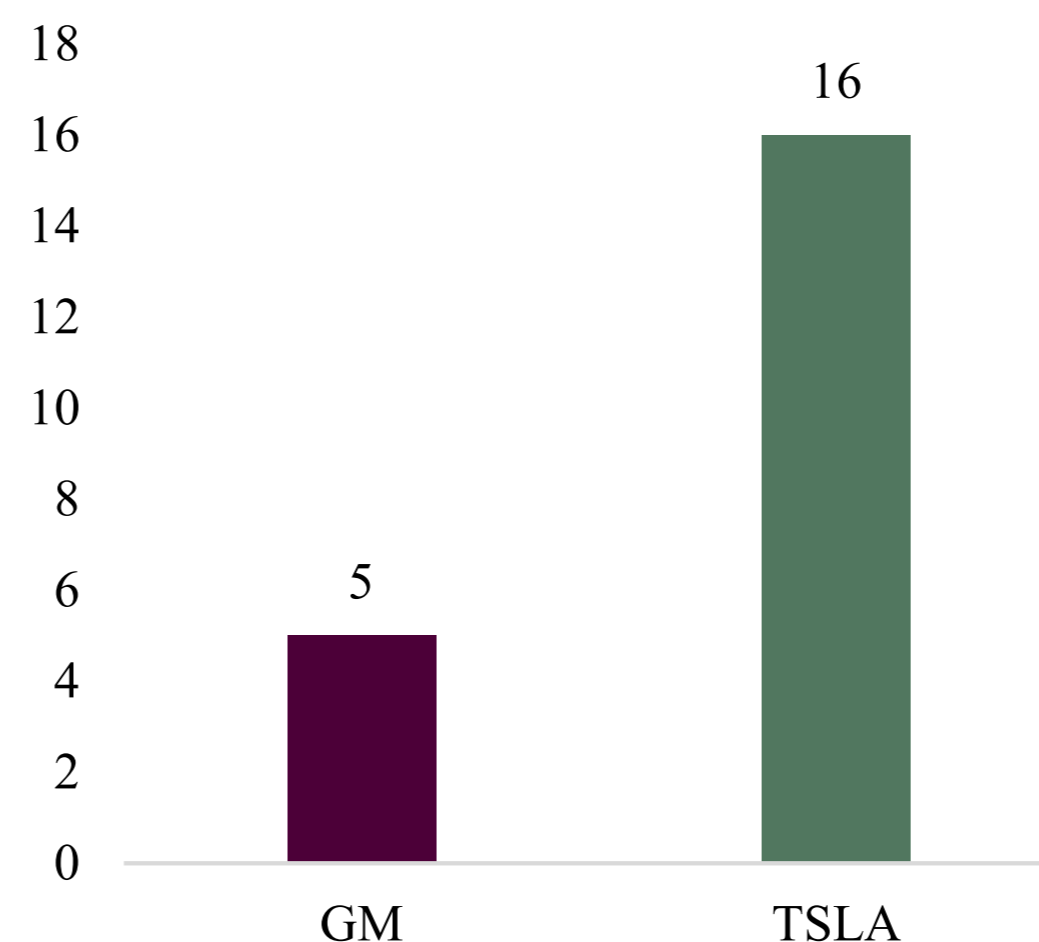
Market Expectations

Market Expectations	GM	TSLA
Delivery CAGR	0%	20%
Autonomous, % of Vehicles	0%	40%
Operating Margin	7%	19%
EPS CAGR	-7%	25%

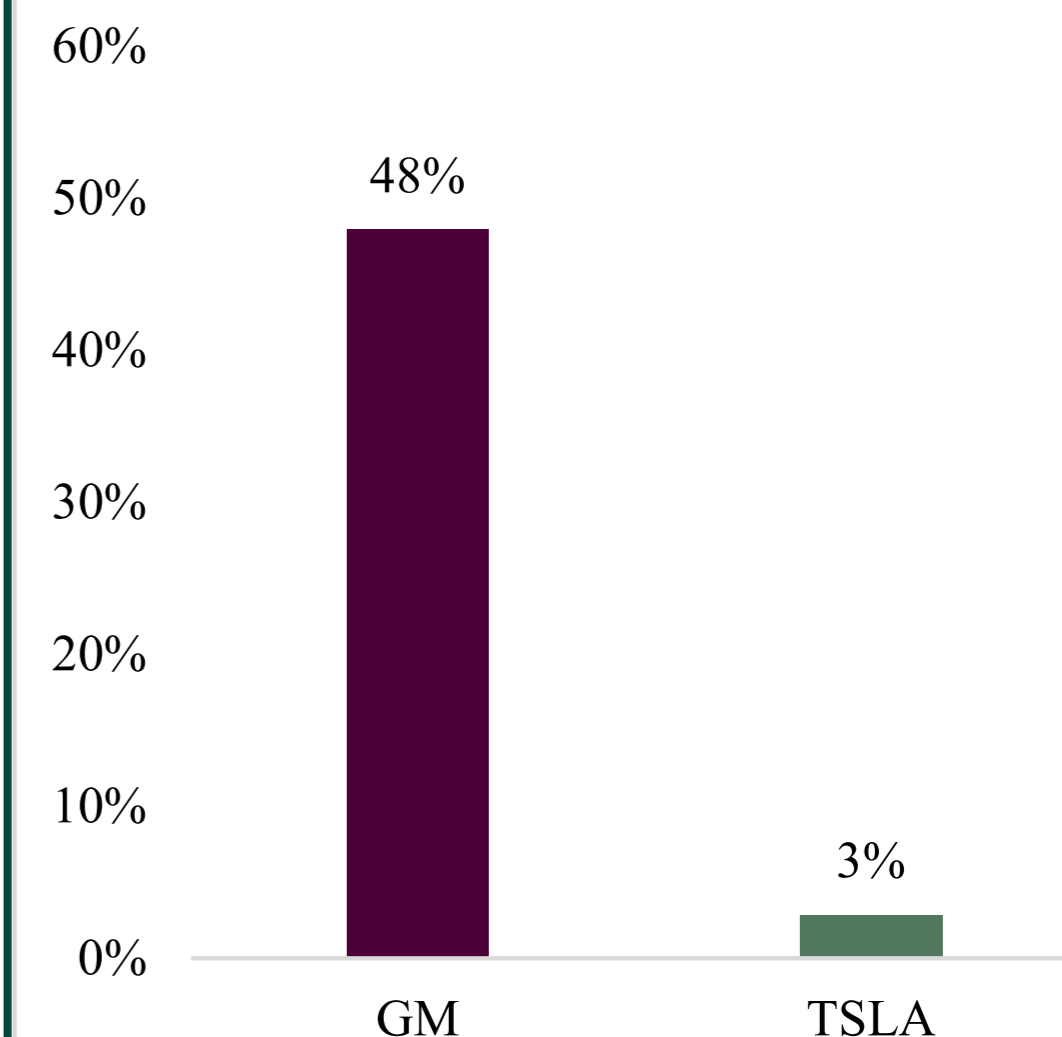
20% bigger than Toyota

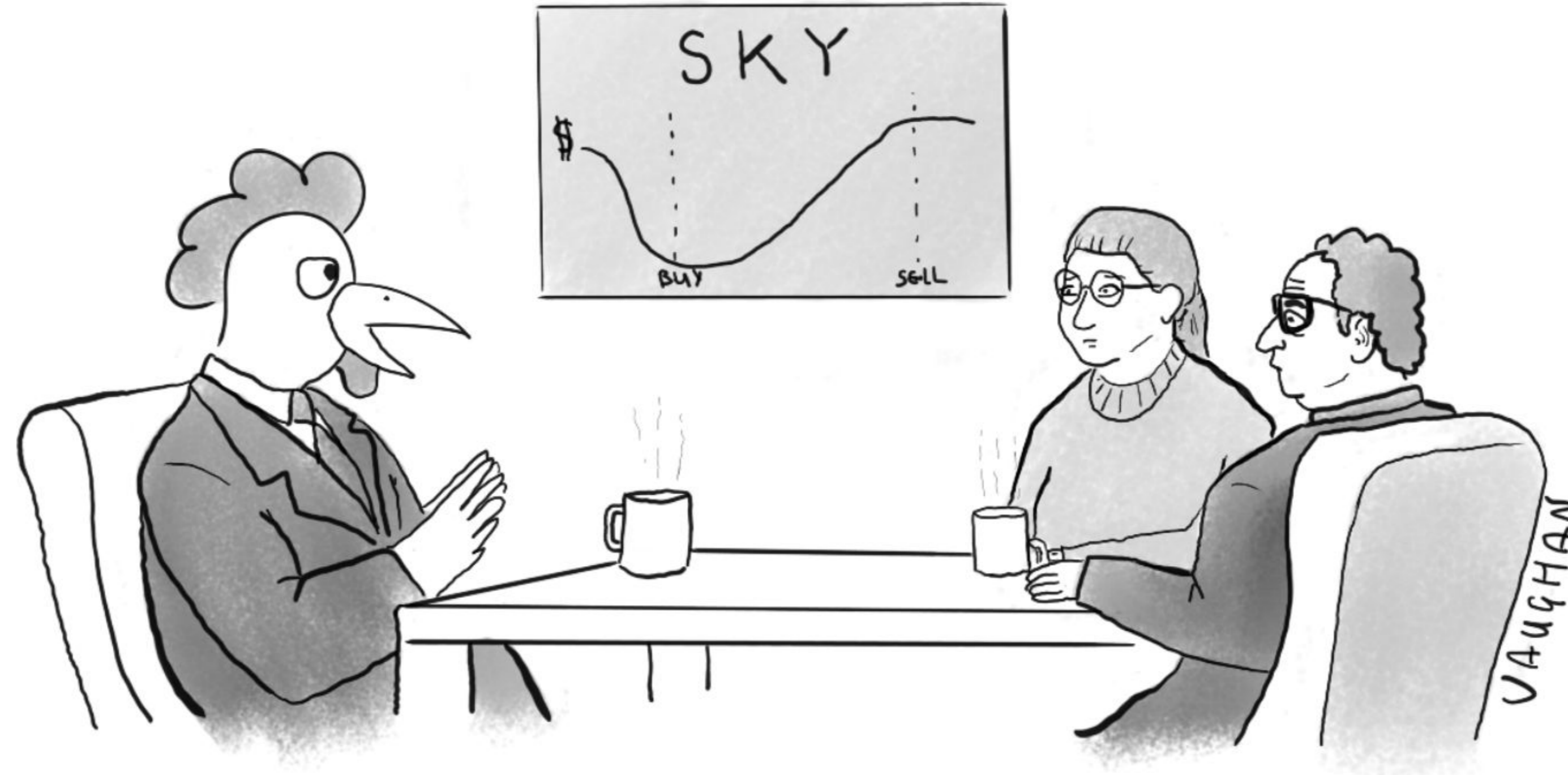
4x increase

Years of FCF to Generate EV



Cumulative 3Yr FCF Yield





"If they believe its falling, it'll fall.
... And that's when we buy, buy, buy!"

CartoonStock.com

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The S&P 1500 Index includes stocks in the S&P 500, S&P 400, and S&P 600 and covers approximately 90% of the market capitalization of U.S. stocks.

Price-to-earnings Ratio (P/E Ratio) is the weighted average of the price/earnings ratios of the equities held by the Fund. P/E ratio is a company's current stock price divided by its estimated next 12-months' earnings per share. Price-to-book ratio (P/B ratio) is a financial ratio used to compare a company's current market price to its book value. Price-to-sales ratio (P/S ratio) is a valuation metric for stocks. It is calculated by dividing the company's market cap by the revenue in the most recent year; or, equivalently, divide the per-share stock price by the per-share revenue. Active Share is a measure of the percentage of stock holdings in a manager(s) portfolio that differ from the benchmark index.

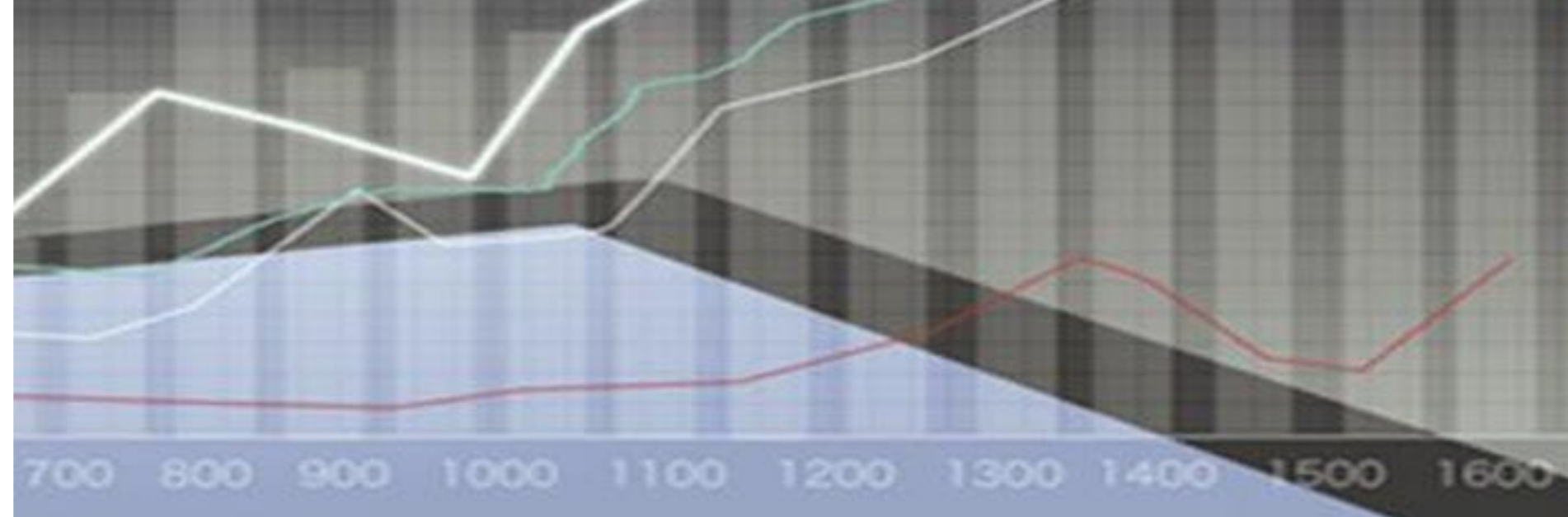
Portfolio Upside to Central Tendency of Value (CTV) is a proprietary calculation based on our assessment of the intrinsic value of individual company holdings currently in the portfolio. Portfolio Upside to CTV refers to the weighted average expected return from each individual company reaching our estimate of intrinsic value from its current trading price. CTV is a probability-weighted estimate of what we believe is the intrinsic value per share for each individual company currently in the portfolio. As part of this process, we build detailed, long-term company models for a variety of scenarios and use multiple valuation methods, such as discounted cash flow (DCF), comparable company analysis, private market analysis, historicals, liquidation, and LBO analysis. These different valuation methodologies are probability weighted to create our CTV. The analysis embeds both risk and return features and allows comparison across securities. Upside to CTV refers to the expected return from a stock reaching our estimate of intrinsic value from its current trading price.

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Ben Graham Centre
for Value Investing



The Ben Graham Centre's 2024 VALUE INVESTING CONFERENCE

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