It finally happened.

After thirteen years we sold a position at a loss in our High Net Worth Portfolios. This summer we sold our investment in Nokia Corp. below cost. We came to the conclusion that the intrinsic value of our investment had been permanently impaired because of the company's increasingly weak competitive position and deteriorating finances. While one loss in more than thirteen years might be considered an excellent track record we take this mistake very seriously and have spent considerable time understanding why the investment was not successful and learning from the decision. Throughout my career, I have thought more about the investments that didn't meet my expectations far more than those that did extremely well. Not only is this excercie an excellent learning process it tends to keep one humble!

Animal spirits have returned to the financial markets. Driven by interest rates at near zero levels and relentless monetary stimulus by central bankers around the world, investors looking for return and yield have stampeded into all sorts of financial instruments. Prices across almost all asset classes have been bid up to unsustainable levels. Based on long term historical valuations we are quite comfortable stating that the potential return across virtually every asset class over the next five years will be very disappointing from today's prices and in many cases likely to be negative. Most investment managers have no place to hide because they are forced to follow very narrow mandates. When the day of reckoning arrives there will be very large capital losses.

We have navigated similar investment environments in the past and protected your capital because you have given us a very unique mandate; to essentially hold as much cash as we deem appropriate. Today our cash balances are again nearing record levels because we can't find opportunities that meet our criteria. While the current return on Treasury Bills is low we believe that this cash hoard is our most valuable asset. It is the source of your future returns and the protective harbour in the inevitable storm. Just as importantly, it

allows you and us to sleep comfortably at night knowing that your capital is safe at a time when the risks are extremely high. As Warren Buffett stated in his 2010 letter to shareholders:

> **"… cash equivalent assets that we hold [are] earning a pittance at present… But we sleep well at night."**

At times like these we invariably get challenged by many investment observers about our large cash balances. The biggest concern raised is that holding cash is inappropriate because its value gets eroded over time by inflation. That argument is true only if the cash is never invested. We view cash as a precious resource that we fully intend to invest when and only when the appropriate opportunities present themselves. Permanent capital losses are far more devastating to a portfolio's purchasing power than the occasional period when returns are below the rate of inflation. As the Wall Street Journal quoted:

> **"Putting a lot of money to work in overpriced, inferior businesses — that's going to end up way more destructive to your capital than sitting in cash for a while …"[1]**

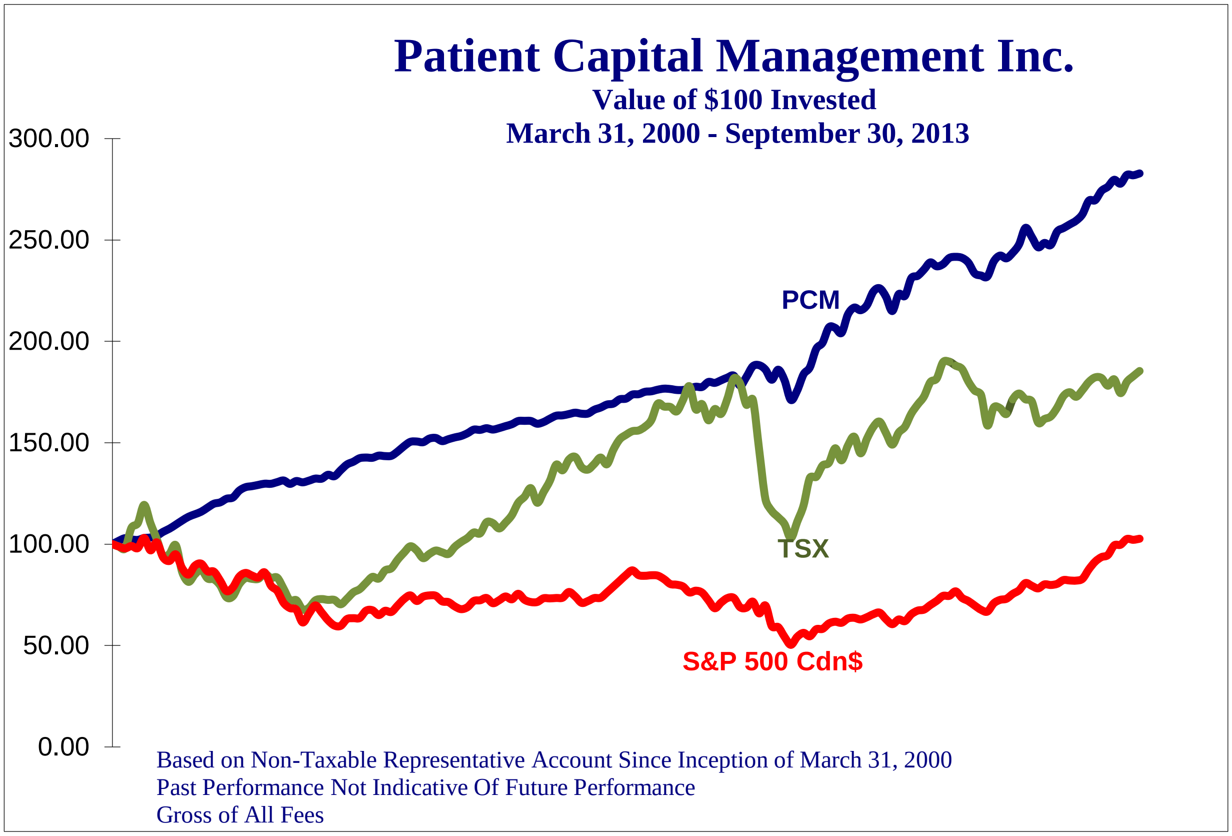
There is a certain paradox that one must accept with the value based philosophy and process that we strictly follow. When the potential for the permanent loss of capital is very high, our disciplined investment style, fundamental analysis and refusal to speculate leads us to miss out on the apparent easy returns as the "band plays on". Our caution seems unwarranted in the midst of the euphoria. However, we are very comfortable foregoing speculative returns for the certainty of protecting your capital when the music stops and the party ends.

We are privileged that you have given us the opportunity to invest your assets in this very distinctive manner. We are one of the very few investment firms that have such a mandate.

[1] Wall Street Journal Online Saturday November 9 2013

Many of our peers often tell us how much they wish that they had the same freedom to invest as we do. This trust that you have placed in us and your patience are the secret to our investment returns. Because we are under no pressure to meet short term benchmarks or to generate activity we can simply wait to "do the right thing".

Consequently, as the chart below indicates, we have been able to generate significant long term outperformance. And we have managed to do so while minimizing risk.



Our results also stem from our most important founding principle; to be fiduciaries first, foremost and above all else. In order to keep that commitment we organized PCM at its inception to be independently owned and financially sound. We are beholden to no one but you!

These principals, combined with the fact that all of our personal assets are invested along with yours ensure that we focus only on our fiduciary responsibility. You can rest assured that at Patient Capital we will always keep these core values in place so that we never waver on this fundamental principle and promise to you.

Vito Maida
Autumn 2013