Patient Capital Management

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"Everyone has a plan until they get punched in the face."

-Mike Tyson

And so it is with markets. Everyone knows to buy low, sell high. Until they are losing money. People understand that corrections are normal, natural and healthy. Until they experience the pain. In markets, you get paid to endure discomfort.

The US political and economic system is the strongest in the world. It's survived numerous wars, threats, catastrophes and crises. We expect it will continue to prove resilient.

The first quarter was a punch in the face, though not a pummeling—that's what started in the second quarter.

Investors entered the year optimistic about the prospects for tax cuts, interest rate cuts and deregulation. There was even talk of a Trump bubble as America's best and brightest engaged in fixing our toughest problems. Then BAM!

Markets experienced the worst quarter since 2022's bear market. The S&P dropped 4.6%, the Nasdaq 10.4% and the Dow 1.3%. From their respective highs to the lows, the S&P declined 10.7%, the Nasdaq 16.6% and the Dow 9.8%. This marks the first 10% correction for the S&P 500 since 2023.

Trump's tariff announcement on April 2nd led to what can only be called a crash. Current market structure leads to an almost immediate discounting of risks. The S&P fell 10.5% in two days, the 5th worst 2-day performance in 50 years. The only worse days were during the 1987 crash, during Covid and the financial crisis. All represented serious shocks and risks to the system. Each was followed by strong gains in the next year, averaging +40%.

The VIX closed Friday above 45, a sign of panic. Usually that's good for a short-term rally (the following 2 weeks are up 75% of the time) and promising intermediate term returns (85% of the time the market is up over the next year, an average of 17%).

Other signs of fear proliferated. Friday was the highest volume day since Goldman started tracking in 2010, the put-to-call ratio spiked above 1, and institutional selling/shorting was at extreme levels with positioning overall very short.

In March, Goldman Sachs's measure of US fundamental net long relative to short exposure experienced its largest monthly decline on record (since 2016) due to high levels of short-selling and hit a 5-year low.

As of this writing, the Nasdaq has officially entered bear market territory, down ~22% from its peak. The Russell 2000 lost nearly 30%, but ended Monday off the lows, down 27%. The S&P 500, down nearly 18%, is nearing an official bear market. It also ended off the lows. More than 60% of S&P 500 stocks are already down more than 20%.

Given prevailing sentiment and conditions, it wouldn't take much for the market to rally. Negotiated tariff deals are the most likely catalyst.

It might surprise you that even during financial calamity, like the financial crisis, markets rallied strongly after similar conditions. Market crashes accompany panic. Markets discount negative news quickly. Unanticipated offsets, such as protective Government and Fed responses, catalyze positive moves.

Trump and team claim current market conditions don't concern them. The market may test the limits of their tolerance, which we don't think are boundless. He surely doesn't want broader economic weakness that hits his constituents. Trump is politically savvy and loves a deal. A recession would erode his support. Trump also cares about Republican mid-term election prospects.

Even if Trump sticks to the current course, support for these policies is fading fast. Numerous Republican Senators, including Rand Paul and Ted Cruz, are voicing significant concern. A court case has been filed contesting Trump's ability to unilaterally enact tariffs. Even Republican members of Congress are publicly questioning the legality of the move.

The market reaction makes clear the disastrous results of the current tariff policy. In a recent interview, Warren Buffett wouldn't answer when asked about the economy (which tells you a lot). When asked directly about tariffs, he said they were "an act of war to some degree.... Over time, they are a tax on goods." Calling them an act of war is strong language, especially for Buffett. Wars cause damage, destruction and loss.

Tariffs are taxes, and taxes are costs. The currently known planned tariffs are greater than $700B, an enormous sum equal to 2.4% of GDP. They dwarf any historical tariffs since Smoot-Hawley during the Great Depression, which led to disastrous results.

Consumers and businesses (both domestic and foreign) will bear the brunt through increased prices and elevated costs. Both depress economic growth and weigh on corporate earnings. Recession risks are high and may, at this stage, be unavoidable. Blackrock CEO Larry Fink said today most CEOs think we are already in one. Since the stock market generally follows the direction of earnings, falling markets are to be expected.

Tariffs of this level are likely to increase, rather than help federal deficits. A recession hurts federal tax receipts. The $6.0T-plus (and growing) wealth market wipeout is worth $1.2T in federal tax revenue (gains at 20% rate), more than 1.5x estimated annual tariff revenues.

More concerningly, protectionism, isolationism and chaos have the potential to undermine our status as the global reserve currency, inflating borrowing costs, further depressing markets and eroding national security.

A policy error this disastrous creates significant opposition quickly. The US is the greatest country in the world because of the system, which includes well-resourced and well-educated citizens with governmental checks-and-balances.

There remain ways we can avoid the direst outcome. The most likely way out is negotiated deals that limit "retaliatory" tariffs. Trump is a deal guy. If he promptly strikes favorable deals that get tariff levels closer to the 10% universal tariff (than the current 20-25%), we think the market would rally strongly. A recession might be avoided, and Trump could declare a win.

Trump claims to be open to negotiations. More than 70 countries are rumored to be in deal discussions with the White House.

If we don't see deals, lower markets and a recession that hits jobs are likely to make Trump reconsider.

A cyclical bear market in the S&P 500 might be unavoidable at this point. The secular bull market would be at risk from remaining on the current course, but there are plenty of ways to avoid that fate.

We've benefited from one of the strongest and longest secular bull markets in history. Since March 2009, the S&P 500 gained 16.9% per year, well above the long-term historical average of ~10%. During that period, we encountered a cyclical bear market during Covid, but the market quickly (5 months) recovered to new highs.

The S&P 500 currently sits at 18.6x this year's earnings estimate (which haven't come down but will). People have long been concerned about elevated market valuations, which were closer to 21x to enter the year. The 30-year average is 16.9x. It would only take another ~10% downside to hit that level.

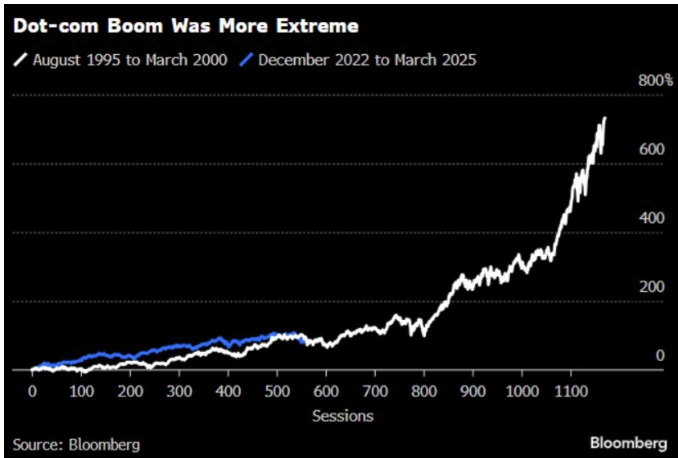
The fate of the Mag 7 and the AI transformation are intricately intertwined with the market's future path in our opinion. JP Morgan data[1] shows that since the Oct 2022 low, European and Japanese markets have outperformed the S&P 500 if you exclude Nvidia.

Tech has been hit hard in the current market rout as people question the sustainability and returns of AI investments. The peak-to-trough declines of former leaders are staggering. Nvidia (NVDA) dropped 40%, Alphabet (GOOGL) pulled back 30%, Meta Platforms (META) 33%, Amazon.com (AMZN) 32%, and Microsoft (MSFT) 23% as momentum names got hit particularly hard.

In late March, a lead Bloomberg story ran entitled "Stumbling Stock Market Raises Specter of Dot-Com Era Reckoning". The article highlighted fears that the current AI selloff is like the popping of the tech bubble.

We were surprised to find most of the article encouragingly bullish. It concluded with a quote from billionaire venture capitalist Vinod Khosla: "'I've seen almost every phase of technology change since 1980,' said Khosla, who made one of the shrewdest investments of the dot-com era in Juniper Networks and more recently was an early investor in OpenAI. 'And I can't see a change that's larger in the past than AI.'"

The article also noted the Nasdaq 100 traded for 35x vs. 90x at tech bubble peak. Most noteworthy was the following chart. (If one truly believed we follow a similar path, wouldn't you want to buy??)



No one can predict the future. There are many unanswerable questions. Will capital spending continue to accelerate? For how long? What returns will be earned on the spend? When is peak spending? The answers will certainly matter for the stocks but are impossible to forecast. Investors systematically sell winners too soon due to perceived risks and concerns.

Here's what we know about AI. Every knowledgeable tech CEO and investor believes we are in the early stages of a transformation. Amazon Founder Jeff Bezos called AI a "horizontal enabling layer," like electricity, or the Internet. It just makes everything better. The electricity analogy is an interesting one.

One of the main concerns is whether AI investments can earn adequate ROIs (returns on investment). What is the ROI of electricity? In the broadest sense, it's immense and impossible to calculate (what is the counter-factual of life without electricity?). In a narrow sense, it's quite easy to measure (direct electricity sales divided by the cost to build).

Electricity is so essential to our lives that it'd be nearly impossible to go without it. The huge upfront cost-to-build creates significant barriers to entry and monopolistic pricing, which has resulted in regulation that dictates allowable returns. According to Aswath Damodaran, the average US utility return on capital is 7% and return on equity is 11% It's unlikely the AI economic model evolves similarly. The Internet is nearly as essential but monetized completely differently.

There are some clear AI "vertical" use cases, like software development, which no one disputes. They do question whether current use cases justify massive hyperscaler capital spend, well north of $300B this year. Amazon CEO Andy Jassey emphasizes that AI compute demand exceeds supply unlike the tech bubble peak. Supply is growing and so must demand to justify investment. Currently, none of the tech CEOs doubt it will.

Other savvy CEOs agree. Rich Fairbanks, the founder and CEO of Capital One, said in his recent annual letter: "the digital revolution has given birth to the AI revolution, which may be the greatest transformation in history." The other transformations he mentioned were harnessing fire, the agricultural revolution and the industrial revolution.

Nvidia's prospects sit at the center of debate. It's historically been a semi-conductor company. We say historically because CEO Jensen Huang describes it as an accelerated computing company. Regardless, the market perceives it as a semiconductor company. Semis are notoriously cyclical, with big earnings swings through the cycle.

Currently, Nvidia still can't produce enough Blackwell chips to meet demand. Pricing and margins are strong. People fear margin mean reversion as gross margins sit in the mid-70s vs low 60's prior to AI, and operating margins are in the low 60s, roughly double pre-AI levels given scale benefits. If demand falters, earnings could drop precipitously.

These are legitimate risks, as always. Nvidia remains dominant and its current prospects remain strong. At the current price of $97.64, NVDA trades for 22.0x current year earnings, which are expected to grow 51% year-over-year. Microsoft trades for 25.8x while growing 11%, Apple 24.4x growing 8%, Amazon 27.7x growing mid-teens, Meta 20.5x growing high single digits.

None of those valuations are at tech bubble levels. Nvidia's valuation is very reasonable, low even, given its growth rate. The market clearly reflects significant skepticism about the sustainability of the earnings growth.

Nvidia dominates the GPU (graphics processing units) market. Their combination of hardware, software and rapid product launch cycle has made it difficult for others to catch up. CEO Jensen Huang is brilliant and a ferocious competitor. He knows he must innovate rapidly to sustain his market position.

For the Mag 7, we own and like Amazon.com (AMZN), Alphabet (GOOGL), Meta Platforms (META), and Nvidia (NVDA). All have attractive valuations (even more so after recent losses), are strong and dominant businesses with solid free cash flow generation. If the AI revolution is legitimate and sustainable, it's much more likely the secular bull market can continue.

Patient Capital Management

Average Annual Total Returns and Expenses (%) as of 3/31/25

	Without Sales Charges						With Maximum Sales Charges						
	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception*	QTD	1Yr	3 Yr	5 Yr	10Yr	Inception*	Inception Date
Class A (LGOAX)	-9.39	2.15	3.10	17.49	6.99	13.91	-14.61	-3.71	1.09	16.11	6.36	13.49	2/3/09
Class C (LMOPX)	-9.56	1.39	2.30	16.59	6.18	6.20	-10.47	0.39	2.30	16.59	6.18	6.20	12/30/99
Class FI (LMOFX)	-9.39	2.09	3.04	17.41	6.93	6.27	-9.39	2.09	3.04	17.41	6.93	6.27	2/13/04
Class I (LMNOX)	-9.34	2.44	3.38	17.79	7.27	7.24	-9.34	2.44	3.38	17.79	7.27	7.24	6/26/00
Class IS (MVISX)	-9.30	2.50	3.44	17.87	–	4.84	-9.30	2.50	3.44	17.87	–	4.84	8/22/18
Class R (LMORX)	-9.46	1.91	2.84	17.19	6.69	5.17	-9.46	1.91	2.84	17.19	6.69	5.17	12/28/06
S&P 500	-4.27	8.25	9.06	18.59	12.50	7.45	-4.27	8.25	9.06	18.59	12.50	7.45	

*S&P 500 since inception return represented from 12/30/99, the Fund's oldest share class.

Gross (Net) Expenses (%): Class A 1.76 (1.74); Class C 2.53 (2.52); Class FI 1.83 (1.82); Class I 1.52 (1.48); Class IS 1.44 (1.42); Class R 2.02 (2.01).

***Performance shown represents past performance and is no guarantee of future results.** Current performance may be higher or lower than the performance shown. Patient Capital Management has agreed to waive fees and/or reimburse operating expenses through April 30, 2026, so that such annual operating expenses will not exceed 0.88%, subject to recapture as described below. With respect to Class I only, the Adviser has agreed to waive fees and/or reimburse operating expenses such that the previously described annual operating expenses, plus intermediary servicing fees and other class-specific expenses, will not exceed 0.93%. Investment return and principal value will fluctuate so shares, when redeemed, may be worth more or less than the original cost. Class A shares have a maximum front-end sales charge of 5.75%. Class C shares have a one-year contingent deferred sales charge (CDSC) of 1.0%. If sales charges were included, performance shown would be lower. Total returns assume the reinvestment of all distributions at net asset value and the deduction of all Fund expenses. Total return figures are based on the NAV per share applied to shareholder subscriptions and redemptions, which may differ from the NAV per share disclosed in Fund shareholder reports. Performance would have been lower if fees had not been waived in various periods. YTD is calculated from January 1 of the reporting year. All classes of shares may not be available to all investors or through all distribution channels. For the most recent month-end information, please call 800-655-0324 or visit patientcapitalmanagement.com/opportunity-trust.*

The future is impossible to predict, a true fool's errand. We focus on investing in companies that have attractive risk-return in a variety of scenarios, including a return-to-normal, a recession and the end of the secular bull market.

We think our fund can produce outstanding returns if we normalize quickly. We think it has short-term trading risk in a recession/end to the secular bull market, but we still believe we can produce market-beating 5-year returns.

We are sensitive to valuation risk and have avoided the most expensive areas of the market. We think this protects us in scenarios where the secular bull market ends.

We prefer short-term trading risk/cyclical risk over long-term capital impairment/secular risk. While that can be uncomfortable in market drawdowns, we manage for strong 5-year returns. We have a long history of bouncing back strongly after precipitous declines.

In the short term, the fund has sold off significantly. Opportunity declined 9.34% in the first quarter, 507bps behind the benchmark S&P 500's 4.27% drop. As of April 7th, it's down 20.5% year-to-date. Historically when Opportunity has dropped 15% in 30 days, it's gained an average of 68% in the next 2 years.

The losses already encountered are extreme. We have 11 names down 50%+ from their peaks! Many cyclical names already fully price recession in my opinion.

Several airlines, including United Airlines Holdings (UAL) and American Airlines Group (AAL) hit JP Morgan's 30-in-30 buying rule (30% decline in 30 days) in March. The signal has a 100% track record of bouncing within 180 days (data goes back to early 90's well before industry improvement). 71% of the time these names gained 50% or more.

Our airlines, United Airlines (UAL $58.77) and Delta (DAL $37.29), are the best positioned in the industry in our view. They are trading at 5-6x projected earnings, well below historical levels of 8-9x. We think they are better businesses than they've historically been. A recession could demonstrate that.

Earnings would get hit in a recession, but we don't see a long-term impact on UAL or DAL's earnings power. In fact, a recession may cause additional bankruptcies of weaker players, leading to additional capacity reductions that put them in even stronger positions. If they just get back to 2025 estimated earnings power when entering the year and historical multiples in 5 years, you make 11% per year on DAL and 13% on UAL from current prices. We think those are conservative earnings estimates and multiples.

Even with a recession, we think returns would be closer to 15-20% per year. United tripled from the lows in August to January, while Delta doubled. When people feel rosier about the economy and industry prospects, the names adjust quickly.

We like to monetize volatility, adding to names on weakness and paring back on strength. We sold slightly more than a third of our airline holdings during strength. We've been buying again. This approach can enhance returns.

Norwegian Cruise Line (NCLH $15.50) is another example of a company we think is very attractive at current levels. It's more than 50% off the highs. This year, it guided $2.45 in earnings power. We estimate recessionary earnings of $1.25-1.40. It's historically traded at 12-14x so it's fully pricing in a recession.

If NCLH just makes it back to $2.45 in 5 years and 12x, you make 13% a year. We think that's likely too conservative. During the financial crisis, the most severe recession since the Great Depression, Norwegian made it back to peak earnings in 3 years. If that proves to be the case, then it grows earnings low double digits, and your 5-year annualized return would be closer to 14%[2].

We recently talked to a top travel expert who believes cruises are "recession-resistant" given their relative value compared to land-based vacations (35% cheaper) and the fact that most people can drive to a cruise port.

We think NCLH should be able to grow earnings per share low double digit for more than a decade. If we're right, it should compound at close to 20%. Airlines and cruises aren't directly impacted by tariffs, only by the knock-on economic impacts (or travel boycotts), which should be temporary.

Currently, our largest positions are well positioned to earn returns in a variety of scenarios. We own Amazon (AMZN $175.26). Its low-price focus, excellent management and culture, and diversified supplier base make it well positioned to adjust to most scenarios. It's trading for 27.7x this year's earnings. While it's one of our higher multiple names, we think it's defensible. During the bear market after the tech bubble burst, CSCO's multiple troughed at 27x, in line with Amazon's current multiple. Amazon has some of the best and most durable growth prospects in the market. Amazon still has margin upside if it decides to optimize costs further.

We also own QXO (QXO $13.55), a Brad Jacobs roll up that just announced its first deal for Beacon Roofing. It's a value-oriented name trading for 10-11x deal-adjusted EV/EBITDA. Brad will do more deals and market weakness might enhance his ability to do attractive ones. One of the reasons Brad chose building products is because people will always need shelter. Most roof demand is non-discretionary.

We own Royalty Pharma (RPRX $31.03), a relatively insulated healthcare royalty investment company name trading for 6.6x earnings and CVS (CVS $63.85), a health services company trading at 10.8x on a depressed level of earnings.

To round out our top names, we own Alphabet (GOOGL $146.75), a dominant technology company trading for 16.3x. People see secular risk to the search business although their results have shown no impact thus far. We estimate the search business is trading at a mid-single digit multiple given the value of the other parts of the business.

Lastly, we own Citigroup (C $58.85), a global bank in the midst of a turnaround to improve its returns. It trades for 65% of its $89 tangible book value. A recession would delay, not derail its progress. We think it can earn low double-digit 5-year returns even if we encounter a recession, and much higher if we don't.

We are very sensitive to expected long-term compound rates. We think the Fund is well positioned on that basis.

The future is always uncertain. We carefully consider risks, and position the fund to optimize for 5-year returns. That's positioned us in some cyclicals where we've seen no multiple expansion. These names get hit hard when recession fears surface, but we believe the through-the-cycle returns will be handsome.

We've avoided the areas of the market where we've seen the greatest multiple expansion, which we think would be most at risk.

We believe our robust intrinsic value-based process that focuses on fundamentals in a variety of scenarios positions us well. Historical market indicators suggest handsome returns from current levels. We estimate the current upside[3] on the fund is 156%, on the high end of our historical range.

During uncertain times, we look to Michaelangelo for an important reminder. "Genius is eternal patience."

Samantha McLemore, CFA
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Patient Capital Management

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PATIENT CAPITAL MANAGEMENT

Patient Capital Management LLC is an SEC registered investment advisor founded in 2020 by Samantha McLemore, majority owner and Chief Investment Officer. Formerly operating with Miller Value Partners, Patient Capital acquired the Opportunity Equity business in May 2023 in a transaction completing Bill Miller's succession plan. As of 3/31/25, Patient Capital operates independently managing $1.9B in assets featuring opportunistic, long-term, value-oriented equity strategies.
The Firm is supported by a team of 10 professionals. Bill Miller remains a minority owner and adviser.

Note: Individual stock prices as of 4/7/2025

[1] Source: JP Morgan Asset Management Guide to the Markets, 2Q 2025.

[2] Assuming a 12x multiple, the low end of the historical average.

[3] As measured by our proprietary assessment of the intrinsic value of individual company holdings currently in the fund.

The **S&P 500 Index (SPX)** is a market capitalization-weighted index of 500 widely held common stocks. The **NASDAQ Composite Index** is a market capitalization-weighted index that is designed to represent the performance of NASDAQ securities and it includes over 3,000 stocks. The **Dow Jones Industrial Average (DJIA)** is an unmanaged index composed of 30 blue-chip stocks, each with annual sales exceeding $7 billion. The DJIA is price-weighted, reflects large-cap companies representative of U.S. industry, and historically has moved in tandem with other major market indexes, such as the S&P 500. The **Russell 2000 Index** is a small-cap stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index. The **CBOE Volatility Index (VIX)** is a real-time market index representing the market's expectations for volatility over the coming 30 days. Investors cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges. **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). **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. **Price to earnings** is the market price per share divided by earnings per share. **Free cash flow (FCF)** is operating cash flow minus capital expenditures divided by the number of shares outstanding. **Return on Investment (ROI)** measures the profitability of an investment by comparing the gain or loss generated to the cost of the investment. AI is an abbreviation for artificial intelligence.

Equity securities are subject to price fluctuation and possible loss of principal. Small- and mid-cap stocks involve greater risks and volatility than large-cap stocks. Real estate investment trusts (REITs) are closely linked to the performance of the real estate markets. REITs are subject to illiquidity, credit and interest rate risks, and risks associated with small and mid-cap investments. The Fund may focus its investments in certain regions or industries, increasing its vulnerability to market volatility. International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. Derivatives, such as options and futures, can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance. The manager's investment style may become out of favor and/or the manager's selection process may prove incorrect, which may have a negative impact on the Fund's performance. Short selling is a speculative strategy. Unlike the possible loss on a security that is purchased, there is no limit on the amount of loss on an appreciating security that is sold short.

Fund holdings and sector allocations are subject to change at any time and should not be considered a recommendation to buy or sell any security.

Earnings growth is not a measure of future performance.

Diversification cannot assure a profit or protect against loss in a down market.

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Before investing, carefully consider a Fund's investment objectives, risks, charges and expenses. You can find this and other information in each prospectus, or summary prospectus if available, which is available at patientcapitalmanagement.com/opportunity-trust. Please read it carefully.

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