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## Opportunity Trust

### Are We There Yet?

As a child, we rarely took vacations. Too expensive. A few times we drove 16 hours from Vermont to our grandparents' house in South Carolina, a long and painful drive. We must have asked our parents a million times, "Are we there yet?" No wonder dad threatened to "cut a switch".<sup>1</sup> Now I'm on the parent side of that classic question. Fortunately, air travel and Apple iPads have cut down the frequency!

The secular bull market that began in March 2009 has been characterized by a nearly constant fear that the end is nigh. "Are we there yet?"

The secular bull market gains have been stunning. In Peter Lynch parlance, from the 2009 lows to today, the S&P 500 produced a 10-bagger, compounding at 17.0% per year. It started with pure panic and depressed valuations. The S&P 500 traded at 12x forward 12-month earnings. Now, there's significantly more optimism and valuations are almost double (23x forward 12-month earnings).

Unfortunately, most investors have failed to fully participate in the gains. Financial crisis trauma led to a costly, myopic focus on risk protection. Hedge funds, as measured by the HFRI Index, gained 4.3% per year on average in the 2010s, woefully lagging the S&P 500's 13.5% annual return. A stark contrast to the outperformance they notched prior to the financial crisis.

To be sure, there are more signs of speculation now. AI deals announced for exorbitant sums with structures harkening back to disastrous Tech Bubble "vendor financing". Young retail investors making bank on crypto and AI...YOLO<sup>2</sup>. I even saw a recent X post claiming everyone in a room was trading on their brokerage sites.

Patient Capital has an annual employee stock picking contest where we pick 10 stocks for the year. Our non-investment team's picks are up a hypothetical 41% on average for the year - nearly triple the S&P 500's return. Every single administrative

professional is beating the market. It's not usually so easy to crush the market. We are in a bull market indeed.

Does that mean we're "there"?

Institutional risk tolerance continues to be muted. University endowment returns have substantially lagged the market. Through the end of 2024, the NACUBO Commonfund Study of Endowments reported that endowments returned 6.8% per year over the preceding decade, a little over half the S&P 500's 13.0% annual return.

Goldman Sachs recently reported light institutional fund positioning. Its sentiment indicator clocked its 30th consecutive negative reading, the third longest streak since 2015 (the two longer ones were both 32 weeks). Concerns, from tariffs and government shutdowns to AI capital spend and geopolitics, keep caution elevated.

At the Italian Tech Week in early October, Goldman Sachs CEO David Solomon said, "I see complacency around risk-taking... I wouldn't be surprised if in the next 12 to 24 months we see a drawdown." He predicted there would be winners and losers.

At the same conference, Jeff Bezos called the AI boom, "an industrial bubble." He said markets struggle to differentiate between winners and losers during excitement, citing the unusual circumstance of 6-person startups being funded at \$20B valuations.

Those cautionary headlines spread rapidly.

If you listen to the entire interviews, they sounded far more positive than suggested. Solomon said he wants to spend much more on AI but is constrained by earnings considerations.

Bezos said it's hard to fathom how transformative AI is. He said the horizontal enabling layer will improve quality and productivity for literally **every** company. He said it's the most exciting time to be alive because of three concurrent Golden Ages: space travel, AI and robotics.

<sup>1</sup>An old expression meaning to cut a tree branch for a spanking

<sup>2</sup>An expression meaning "You Only Live Once" encouraging risk taking



Jensen Huang, CEO of Nvidia, recently spoke on the B-squared podcast with Brad Gerstner. Jensen said he's not concerned about an overbuild of AI in the near-term. "Until we fully convert all general purpose computing to accelerated computing and AI...I think the chances [of a glut] are low."

OpenAI and AMD announced another large deal, spurred by what OpenAI said is a shortage of compute.

We've compared this period to the late 90s or Nifty Fifty periods, both of which entailed spectacular gains and ended with secular bull market peaks... However, many people got defensive way too early and missed out. Greenspan's famous "irrational exuberance" line in late 1996 was followed by 116% market gains! Even after the crash, the market didn't fall to the levels where he uttered that line.

Paul Tudor Jones, one of the greatest traders of our times, recently told CNBC, "It's like 1999...the ingredients are in place for some kind of blow off" top..."If anything, now is so much more potentially explosive than 1999. You need to position yourself like it's October 1999. The Nasdaq doubled from October 1999 to March 2000."

Everyone seems to agree we are in a bubble. However, the magnitude, scope, and even existence of a bubble is only ever clear in hindsight. A few things seem clear at present:

1. AI is transformative with broad usefulness and impact. It's attracting significant attention and capital.
2. It's costly to build AI infrastructure, increasing the risk of subpar returns.
3. Judging from valuations and sentiment, we are in the later stages of the secular bull market. Whether that occurs in months or many years, no one knows.
4. Speculative activity is growing. Bezos cited startup funding. OpenAI's recent \$500B valuation is 25x its 2021 GPT-3 post releases \$20B valuation. OpenAI is reported to have committed to orders for over **\$1T** in infrastructure spend.
5. Significant skepticism still exists. Cautionary headlines fill the news. Nvidia, arguably the main economic beneficiary of the boom, trades for 33x next 12 months earnings, a far cry from Cisco's peak above 100x. Markets are complex, adaptive systems, and people have learned from past bubbles.

So where does that leave us? Howard Marks' Jan 2025 piece, "On Bubble Watch," brilliantly explained bubbles and summed up the pros and cons of the current environment well. The key point, "For me, it's psychological extremeness that marks a bubble."

Bubbles don't typically peak with the world on high alert. At peaks, even the most bearish have usually thrown in the towel on their skepticism. But who knows? We approach markets with a huge dose of humility. There's far more we don't know than we know. Vigilance and agility are paramount.

Over the past decade and a half, people have cost themselves much more by being too cautious. People are much more sensitive to Category 1 investing errors (acting when you shouldn't), than Category 2 ones (failing to act). *See ChatGPT's Summary below.* Given losses are twice as painful as gains are pleasurable, investors aren't as sensitive to missing money-making opportunities as they should be.

Category	Statistical Analog	What It Means in Investing	Example
<b>Category 1 (Type I)</b>	False positive	<b>Acting when you shouldn't</b> — buying a stock, strategy, or theme that turns out to be wrong.	Buying a company you think is undervalued or transformative, but its fundamentals collapse.
<b>Category 2 (Type II)</b>	False negative	<b>Failing to act when you should</b> — missing a great opportunity because of caution or skepticism.	Sitting in cash while the market or a secular growth theme (e.g., AI, cloud, 2009 bull market) compounds massively.

Source: ChatGPT

Those endowments that earned 6.8% per year over the past decade turned \$10,000 into \$19,307. If they'd invested in an S&P index fund instead, their 13.0% (or close to it with minor fees) returns would have resulted in \$33,946 instead, 1.8x as much.

The Tech Bubble crash was one of the worst in history, entailing a 49% peak-to-trough decline. It was a secular market peak that coincided with a bubble.

If a comparable crash occurred today, the ~\$34K index fund balance would fall to \$17,312. Endowments should fare better. If their market capture rate is proportional (52.3% of the market's upside and downside), their losses would be 25.6%, yielding a final balance of \$14,358.

The index fund would still produce a balance 20% higher, despite being exposed to bigger losses. Markets have historically risen over time, and compounding is powerful. Investors have generally been financially better off capturing the volatility on both sides. Psychologically, though, you're exposed.



Market crashes like the Tech Bubble have happened only 5 times in the past century, a rate of roughly once every 20 years. The former analysis actually understates the benefits of downside volatility tolerance. Using a compounding period of 20 years before a crash, the hypothetical index investor winds up with more than twice as much as the hypothetical endowment investor (detailed in table).

## 20 Year Compounding Then Crash

Rate of Gains	Balance	Loss in Crash	Final Balance
6.8%	\$37,276	25.6%	\$27,723
13.0%	\$115,231	49.0%	\$58,768

2.1X

Source: Bloomberg, Patient Capital Management.

This is a hypothetical illustration based on mathematical principles to show the effects of compounding. It does not reflect actual past or future performance.

We did suffer two whopper ~50% crashes within a decade in the 2000s. First, the Tech Bubble, then the Financial Crisis. This experience colored a generation of investors. It's an important origin of the heightened risk awareness we see today.

My longtime colleague, Bill Miller, often pointed out that when people think of risk they only think of the risk of loss if things go wrong, but risk is two-sided and asymmetrical. You can only lose 100% of what you have at risk, but if things go right, you have the possibility of making many hundreds or even thousands of times what you are risking.

People only tend to think about this risk of missing out on gains during the later stages of a bull market. Does that mean people should get more aggressive today? Not at all.

A cardinal sin in investing is doing today what you should have done many years ago. Unfortunately, this happens all the time. It's easy to see what you should have done differently. The incentive to do something to fix performance problems is significant.

With valuations near historical highs and pockets of euphoria, more caution is warranted. Long-term return prospects are lower than the past decade given the starting point.

Another great line from The Money Game states, "The only real protection against all the vagaries...is to have an identity so firm it is not influenced by all the brouhaha in the marketplace." It goes on, "The end object of investment is serenity, and serenity can only be achieved by the avoidance of anxiety, and to avoid anxiety you have to know who you are and what you're doing."

As for us, we aim to deliver strong, market-beating returns. We are patient, opportunistic, and behaviorally aware. We seek to prevent permanent impairments of capital, not volatility.

Impairment means you don't make back losses. This usually results from deteriorating business fundamentals or overpaying for an asset. We seek to mitigate both risks. Further, we seek to mitigate the risk we underperform our benchmark.

To deliver on our goal of high, market beating returns, we will need to protect against impairments associated with secular bull market tops. Fortunately, value investing has proved protective after similar past peaks.

Our identity is long-term, value investors. We compare market expectations to business fundamentals and intrinsic values. We seek to capitalize on disconnections between the two when we have a variant perception.

We believe AI is transformative. Not all transformations lead to excellent investment opportunities. Air travel changed the world, but airlines have been the poster children of terrible investments (we think some airlines are attractive currently).

We invested in Nvidia early last year because we believed the market miscategorized Nvidia as a hardware company with imminent earnings risk. We thought Nvidia's software, networking and innovation cycle created a broader competitive advantage, and the opportunity was huge.

We still believe Nvidia is earning the bulk of AI economic returns (so far). It's a fantastic company with great returns and growth at the center of an economic boom. In our view, it's not expensive at 29x FY 2027 (calendar 2026) earnings, which are expected to grow at 40%+. Their products are still in high demand with shortages.

The enduring fear has been that demand will roll over at some point, creating an air pocket in earnings and the stock. It's possible. We aren't smart enough to predict when that might happen. But we aren't there yet. Market expectations are clouded by that fear, while business fundamentals remain stellar – a disconnect we are happy to continue to exploit.

On the other hand, we've avoided the neoclouds. Demand growth has been astounding, but they are burning significant cash given the elevated capital intensity. JP Morgan recently initiated on CoreWeave, the leader, with an overweight.

It projected 2029 free cash flow of \$3-4B. With a \$79B enterprise value, one needs to believe in significantly brighter prospects over some time horizon to justify the current price.

As Peter Lynch said during the height of the Tech Bubble, "That's not to say there's no such thing as an overvalued market, but there's no point in worrying about it."

"Mommy, are we there yet?" No dear, not yet. But we're getting closer.



### Portfolio Recap

Patient Opportunity Trust (LMNOX) performed well in the third quarter, gaining 14.6% versus our benchmark, the S&P 500's 8.1% return. This brings our year-to-date gains to 20.0% vs. the S&P 500's 14.8%. Since I took over sole management of Opportunity at the end of 2022, it's gained 31.5% per year versus the S&P 500's 24.1% annual gain.

The largest quarterly contributor to performance was Precigen (PGEN \$3.19), which contributed more than 500bps/nearly 400bps in the period. We led a private investment in December 2024 through a preferred investment with warrants. We've known the company for over a decade and saw a lucrative opportunity to solve the company's capital needs in advance of an August FDA decision on its first drug, Papzimeos, in which we had high confidence.

Flexibility is a significant asset in markets. Our ability to create a mutually beneficial structure paid off. We structured the transaction based on Warren Buffett's deals with Goldman Sachs and Occidental Petroleum. Another asset is hunger. Our team logged significant hours over the holiday season to execute this deal. I thank them greatly.

The FDA approved Papzimeos early, with a broader label than expected. When we did the deal in Dec, the stock was

around \$0.75. It ended July at \$1.71 and surged to over \$5 after approval. It's since pulled back to a low of \$3.00, on par with historical post-approval pullbacks.

In September, the company raised a \$125M credit facility which gives them time to commercialize Papzimeos, a process that's fraught with risk and delays. Since the papillomatosis patient population is in dire need with no other treatment options, there's a high incentive for providers and payers to work expeditiously.

We value the papillomatosis indication at ~\$5.50 (including international), approximately 80% upside from the current price. We also like Precigen's pipeline, which includes a comparable drug for genital warts (also caused by the HPV virus), a treatment for HPV cancers based on the same underlying Adenoverse platform and the Ultra CAR-T platform.

While all are early stage, we think they represent significant value. If all are successful, we think the company's value has the potential to be more than 10-15 times where it trades today.

Given the binary nature of drug development and the low odds of any drug's success, there are ample risks, and the odds all succeed are low. We think CEO Helen Sabsevari is an excellent drug developer who understands how to get drugs approved better than most. Given Precigen's outsized move and the

### Average Annual Total Returns and Expenses (%) as of 9/30/25

	Without Sales Charges						With Maximum Sales Charges						Inception Date
	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception*	QTD	1Yr	3 Yr	5 Yr	10Yr	Inception*	
Class A (LGOAX)	14.49	29.93	29.07	12.10	10.97	15.39	7.92	22.45	26.55	10.78	10.32	14.97	2/3/09
Class C (LMOPX)	14.29	28.97	28.07	11.25	10.13	7.22	13.29	27.97	28.07	11.25	10.13	7.22	12/30/99
Class FI (LMOFX)	14.47	29.87	28.98	12.02	10.91	7.50	14.47	29.87	28.98	12.02	10.91	7.50	2/13/04
Class I (LMNOX)	14.59	30.30	29.42	12.39	11.27	8.29	14.59	30.30	29.42	12.39	11.27	8.29	6/26/00
Class IS (MVISX)	14.60	30.38	29.49	12.46	–	8.71	14.60	30.38	29.49	12.46	–	8.71	8/22/18
Class R (LMORX)	14.44	29.63	28.72	11.81	10.66	6.60	14.44	29.63	28.72	11.81	10.66	6.60	12/28/06
S&P 500	8.12	17.60	24.94	16.47	15.30	8.06	8.12	17.60	24.94	16.47	15.30	8.06	

\*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](http://patientcapitalmanagement.com/opportunity-trust).



conversion of our preferred shares to common stock during the quarter to take advantage of the conversion price, it has become our largest exposure in the portfolio, leading us to pare back the position some.

We added no new names in the quarter. With rising valuations, we are seeing less compelling new opportunities, though they do exist. Given our enthusiasm for the current portfolio, the bar is high. We did add, aggressively in some cases, to names already in the fund.

We started a small position in UnitedHealth (UNH \$367.69) in the second quarter and added aggressively during its third quarter sell-off. Our average cost is \$289.79/291.74. It was our fifth/second largest holding at the end of the quarter.

UnitedHealth is the industry leader. Several industry headwinds, including cost and reimbursement pressures, challenged the industry. Given UNH's reputation as a reliable earnings-beater, the fall from grace was particularly hard. We have confidence that the business isn't impaired, and the industry is facing a classic insurance cycle.

It will take several years to fully repair earnings. We think the company can double its earnings over the next 3-5 years, enabling it to compound in the low-to-mid teens.

Healthcare accounted for 26.2% of the portfolio. Excluding Precigen, which has a different risk-return profile than most names in the sector, the weight was 21.2%. Until recently, healthcare has greatly lagged the market, creating compelling opportunities. Our exposure provides good diversification and ballast to the portfolio.

Given we believe we are in the later stages of the secular bull market (though there could be years left), we are balancing letting our winners run (monetizing the current environment) with redeploying into mispriced laggards we believe would outperform in a different market environment.

We have roughly 44% of the portfolio in what we would characterize as momentum areas of the market (AI/tech, crypto, financials). We have exited names we thought were fully valued with unattractive risk/return. We continue to think our remaining names are positioned to outperform. We have other winners I wouldn't classify as "momentum", like QXO (QXO \$19.73), Royalty Pharma (RPRX \$36.14), and Expedia (EXPE \$216.81).

We've been adding to laggards where we have high conviction. Crocs (CROX \$80.39) is facing tariff headwinds but has an innovative marketing approach and a 15% free cash flow yield. Next year should be a transformative year for Mattel (MAT \$18.10) in its transition to a more digital IP company. We believe IAC (\$33.41) remains extremely undervalued, and Barry Diller is focused on closing the value gap. Biogen (BIIB \$149.61) has near-term pressures from a declining multiple sclerosis franchise, but based on our internal valuation, the market isn't appropriately valuing the pipeline potential.

We remain excited about the portfolio's potential in a variety of market environments.

**Samantha McLemore, CFA**

October 14, 2025

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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 9/30/25, Patient Capital operates independently managing \$2.4B 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 10/9/2025

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 **HFRI Fund Weighted Composite Index** is a global, equal-weighted index of single-manager hedge funds that report their performance to HFR Database. It includes funds with a minimum of \$50 million under management or a one-year track record, and the returns are net of all fees. Investors cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges. **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. **Basis point (bps)** is one hundredth of one percent. **Market capture rate** is a way to measure how a portfolio performed against a benchmark during specific market conditions, both up and down. An **upside capture ratio** measures how much of the portfolio outperformed the benchmark during rising markets while a **downside capture ratio** measures how much it loss less than the benchmark during falling markets.

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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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