Patient Capital Management

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Opportunity Trust

"There is nothing so stable as change."

- Bob Dylan

Change

By: Kathleen Raine

Change
Said the sun to the moon,
You cannot stay.

Change
Says the moon to the waters,
All is flowing.

Change
Says the fields to the grass,
Seed-time and harvest,
Chaff and grain.

You must change said,
Said the worm to the bud,
Though not to a rose,

Petals fade
That wings may rise
Borne on the wind.

You are changing
said death to the maiden,
your wan face
To memory,
to beauty.

Are you ready to change?
Says the thought to the heart,
to let her pass

All your life long
For the unknown,
the unborn
In the alchemy
Of the world's dream?

You will change,
says the stars to the sun,
Says the night to the stars.

Another year in the history books. How do the years fly by so quickly? I enjoy this time of year. Things typically slow down (though not for us this year). There's time to reflect. The new year ushers in the possibility of change and new beginnings.

After such a strong year, investors hope for more of the same, rather than something different. The S&P 500 registered its second 25%+ return year in a row, the first such occurrence since the Tech Bubble. Only, change is inevitable. It's just a question of how things will be different.

In my second year as sole manager of Opportunity Trust, we pulled off a "Silky Sullivan" finish, surpassing the market late in the year to end up 26.71%, 170bps ahead of the S&P 500's 25.02%. Like most of our team and my family, you may not be familiar with Silky Sullivan.

Average Annual Total Returns and Expenses (%) as of 12/31/24

	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)	8.45	26.34	3.99	8.57	8.69	14.85	2.20	19.08	1.96	7.29	8.05	14.42	2/3/09
Class C (LMOPX)	8.24	25.40	3.18	7.73	7.87	6.69	7.24	24.40	3.18	7.73	7.87	6.69	12/30/99
Class FI (LMOFX)	8.42	26.27	3.91	8.48	8.62	6.85	8.42	26.27	3.91	8.48	8.62	6.85	2/13/04
Class I (LMNOX)	8.52	26.71	4.26	8.84	8.97	7.75	8.52	26.71	4.26	8.84	8.97	7.75	6/26/00
Class IS (MVISX)	8.51	26.77	4.32	8.91	-	6.65	8.51	26.77	4.32	8.91	–	6.65	8/22/18
Class R (LMORX)	8.38	26.01	3.72	8.28	8.38	5.82	8.38	26.01	3.72	8.28	8.38	5.82	12/28/06
S&P 500	2.41	25.02	8.94	14.53	13.10	7.71	2.41	25.02	8.94	14.53	13.10	7.71	

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

Gross (Net) Expenses (%): Class A 2.12 (2.11); Class C 2.88 (2.87); Class FI 2.17 (2.16); Class I 1.88 (1.85); Class IS 1.78 (1.77); Class R 2.38 (2.37).

***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, 2025, 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.*

Back in our Legg Mason days, Silky Sullivan was our mascot. His come-from-behind finishes (check out the video) inspired hope and optimism when we lagged the market late in the year. There were many years during Bill Miller's Value Trust streak where the fund pulled ahead late in the year, including his second year as sole manager. Interesting how history rhymes.

Fun fact: my 11-year-old son now yells, "Silky Sullivan on the outside," as he passes me on the slopes. It seems like just yesterday he was too little to ski. Now even my 6-year-old "baby" is losing most of her baby fat. Alas, change.

We had a productive end to the year. We closed a private deal with one of our companies, Precigen (PGEN $1.18), which had us burning the midnight oil during the holiday season. We were optimistic it would prove lucrative for our investors, and so far, it has, with the stock up 60% since the deal was announced.

Precigen is a cell and gene therapy company. We expect later this year it will receive FDA approval and launch its first therapy for respiratory papillomatosis. The most interesting aspect of Precigen is the platform nature of its IP. It has numerous programs that enhance efficacy, delivery, safety and scalability of cell and gene therapies. In our opinion, none of this potential is priced into the stock. Precigen, under CEO Helen Sabzevari, has done an excellent job driving programs through clinical trials quickly and efficiently. Before the deal, Precigen's limited cash resources created solvency risk that weighed on the stock. The deal solved the cash needs, which allowed the stock to rebound nicely. We believe the company's cash runway now extends through approval and commercialization.

A Year Ago vs. Now

As for change, it's amazing what a difference a year or two makes. We've traversed the terrain of pessimism into optimism.

At the end of 2022, strategists forecast double-digit 2023 market declines (after an 18% S&P 500 drop for that year). The market humiliated the group, delivering a top-notch 26% gain. Not easily deterred from unlikely projections, strategists called for a flat 2024. *(Since 1926, only 3 (of 99) years have been +/- 1%).* To which, the market served a second-in-a-row 25%+ return year (which hasn't happened since 1997-1998). Finally, for 2025, projections call for a normal year, averaging 10.4%, close to the long-term 10% average. The tide of comfort is rising.

Other indicators suggested significant bearishness a year ago. In December 2023, ETFs registered their largest month of net outflows, put-to-call ratios were above 1 and Citigroup's Levkovich Index (formerly known as fear-greed index) still registered negative numbers. Recession fears loomed large.

Top Ten by Issuer as of 12/31/24

Name	% of Portfolio
Amazon.com, Inc.	6.7
QXO, Inc.	6.0
Alphabet Inc.	5.7
Citigroup Inc.	5.3
Energy Transfer LP	4.9
Meta Platforms, Inc.	4.3
Nvidia Corp.	4.2
General Motors Co.	4.0
Expedia Group, Inc.	3.8
Royalty Pharma plc	3.5
Total	**48.6%**

More recently, we concluded a record year for ETF inflows in 2024, with November the best month ever. The Levkovich Index has been sitting in "greed" territory for months. Public sentiment has finally shifted towards a soft-landing scenario. Valuations reflect the elevated mood. The S&P 500's forward 1-year price-to-earning's multiple rose from 19.7x a year ago to 21.7x (still below 2000's 25.2x peak).

We prefer investing when fear infiltrates every nook and cranny, yet optimism isn't a death-knell for bull markets. Low expectations can make for easy intellectual (yet gut-wrenching) calls. In the fall of 2023, we believed OneMain Financial (OMF $52.46) priced in recessionary earnings, yet a recession would cause further losses before a recovery. The stock returned 45% since the end of that third quarter. Optimism, on the other hand, creates more risk that fundamentals fall short of expectations.

That's where we sit today. Any number of things, from rising interest rates or inflation to economic growth concerns, could spook the market.

The more things change, the more they stay the same. Risk meets opportunity. Climbing the proverbial wall of worry advances the market.

Some of the best returns occur late in bull markets. Numerous successful investors describe 4 stages of bull markets. Most famous is Sir John Templeton's epic quote that "bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria." Birinyi Associates, which has a long track record of success, divides bull markets into four stages: skepticism, consolidation, acceptance and exuberance.

Ascertaining where exactly we sit can be more art than science. What's clear: we remain in a bull market and sentiment is rosier than a year or two ago. The current correction has burned off some enthusiasm fortunately. Birinyi judges we are at the mid-

point of the acceptance stage. In their framework, the skepticism and exuberance stages generate the highest returns.

Some euphoric conditions exist, such as for certain quality compounders (e.g.- Costco Wholesale (COST $927.37) at 51x earnings), retail options activity and quantum computing. Many think bitcoin, Mag 7 and AI should be added to the list. I disagree.

We believe we're still early in bitcoin's lifecycle. Despite the availability of ETFs, most advisor platforms still restrict access. Bitcoin's strong 127% historical 1-year gain parallels historical moves off lows. In the past, it's taken a couple additional years to form an interim peak. We made an initial investment in the Fidelity Wise Origin Bitcoin ETF (FBTC $82.02) in the quarter after finalizing required backend setup.

The Mag 7's significant gains and indisputable leadership draw attention. For the most part, their fundamentals justify their stock performance and leadership (much to the chagrin of active managers hurt by their underweight positions).

Excluding Tesla (TSLA $394.94), the group trades at 27x 2025 earnings with a 43% average return on invested capital (ROIC) and 19% average estimated revenue growth. The 25% valuation premium to the market is dwarfed by the ROIC, revenue growth and free cash flow margin premiums. The subset owned by Patient Capital (Alphabet (GOOGL $193.95), Amazon.com (AMZN $222.13), Meta Platforms (META $610.72), and Nvidia (NVDA $140.11) trades at a lower valuation than the group, with better fundamentals (ROIC, growth). It's difficult to argue excessive aggregate valuations unless forecasted fundamentals are way off the mark.

	12/31/24 1-yr forward P/E	TTM ROIC (MRQ)	Est 2025 Rev Growth
AAPL	30.8x	46.9%	5.9%
MSFT	27.8x	25.3%	13.6%
GOOGL	20.6x	28.6%	18.1%
AMZN	31.3x	13.4%	10.9%
TSLA	124.2x	16.3%	16.5%
META	22.4x	27.6%	14.7%
NVDA	30.5x	114.7%	52.8%
Avg	**41.1x**	**39.0%**	**18.9%**
Avg ex TSLA	**27.2x**	**42.8%**	**19.3%**
Avg (PCM exposure)	**26.2x**	**46.1%**	**24.1%**
SPX	21.7x	7.8%	5.7%

Source: Bloomberg.
Est. rev growth is fiscal year most closely aligned with calendar 25

Given the AI revolution, it's difficult to foresee that. The most brilliant technology experts all seem to agree AI will transform the world. Given the massive data and capital requirements, advantages accrue to scaled incumbents (e.g.- Mag 7).

In markets, it's always challenging to discern signals from noise. Bill Miller's long tenure and successful track record make him better equipped than most to do so. In a recent conversation about the market's strong gains and rising valuations, he remarked: "what most people don't get is we are in the midst of a technological revolution."

We've believed a Tech Bubble/Nifty Fifty 2.0 scenario was a reasonable probability. Market action, including Tech Bubble-like consecutive 25%+ return years and Mag 7 leadership, elevate those odds. We're not there yet in our opinion.

Howard Marks, the renowned value investor who called the Tech Bubble almost perfectly recently remarked in the Financial Times, "the forward p/e ratio on the S&P 500 is high but not insane… I don't hear people saying, "there's no price too high" and the markets – while high-priced and perhaps frothy – don't seem nutty to me."

At the same time, a more significant pullback is likely in 2025. Most years include 10% pullbacks. The Tech Bubble had a few, including in 1999. 1998 even hit the official -20% bear market territory on an intraday basis. We came close to -10% in Aug 2024 but didn't quite hit the mark. Pullbacks are healthy and help alleviate market excesses, but never feel that way.

Considering the evolving environment, let's review how we've changed the portfolio over the past year (year end 2023 to year end 2024).

	2024	2023
Mag 7	20.9%	14.9%
SPX Weight	*33.5%*	*28.0%*
U/W	-12.6%	-13.1%
Cyclical Value	48.4%	62.5%
Energy	12.2%	9.8%
Healthcare	14.8%	7.7%
China	2.9%	2.5%
Bitcoin (COIN + ETF)	3.5%	2.3%
Leverage	-8.2%	-12.9%

Our Mag 7 exposure (20.9%) increased primarily due to our Nvidia purchase in Jan 2024 and secondarily through market appreciation. Our underweight to the market (-12.6%) shrunk modestly.

You might be surprised by our high "cyclical value" exposure (48.4%). In this context, "value" refers to low multiple names (which is not how we think of value broadly). Stocks with low multiples tend to have some perceived problem: disappointing fundamentals, secular risk, cyclical or volatile earnings, etc. We prefer the "problem" of cyclicality, which we see as no problem at all.

We think it creates opportunity. The market often extrapolates short-term results, or myopically focuses on short-term trends and risks, allowing us to "monetize volatility". It often discounts quality cyclicals more than warranted. The poor conditions people fear eventually improve.

Our exposure to cyclical value has dropped by 20% over the past year as prices rose. The market's punitive pricing for some cyclicals dissipated as soft-landing expectations escalated. We rotated exposure out of names with less upside into names we deemed more mispriced, like Dave & Buster's Entertainment (PLAY $29.38), which has gotten hit hard.

As the environment normalized, we took leverage down by 36%. If the market continues higher as we expect, we will look for further opportunities to pare back leverage to preserve capacity for future declines.

We still see pockets of pessimism, to which we've been actively adding. Weights in healthcare and energy rose significantly, while China exposure grew more modestly. All three areas significantly trailed the market last year. We see some of our greatest upsides to intrinsic value in these laggards.

In energy, oil supply glut concerns weighed on the sector. The cardinal rule for commodities: no one has a clue about future prices. We aim to value cyclical companies at mid-cycle pricing ($60-65/bbl WTI in our view). For Kosmos Energy (KOS $3.75), we think intrinsic value is triple the current price. Free cash flow will grow substantially this year as capex declines significantly. Seadrill (SDRL $37.80) is worth double the current price, in our opinion, and is an acquisition target.

Energy companies are highly correlated with commodity prices. Things could get worse before they get better, but we have conviction these investments will eventually reward us handsomely.

We are particularly excited about our healthcare names, including Royalty Pharma (RPRX $26.20), Biogen (BIIB $150.75) and CVS Health (CVS $46.01), which all trade at significant discounts to what we think they're worth. They also provide ballast to the portfolio and protection against any economic growth concerns that might arise.

Royalty Pharma owns a diversified stream of royalty income. It's run by a savvy group of investors. It trades for 5.9x this year's earnings with a 3.3% dividend yield. We expect earnings per share growth in the high-single-to-low-double-digit range. We think this team understands value creation and wouldn't be surprised to see them get more aggressive with share repurchases at the current stock price (after the writing of this letter, RPRX made a number of favorable announcements including a larger share repo).

CVS has a 5.8% dividend yield, an engaged activist on the Board (Larry Robbins from Glenview) and an excellent new CEO (David Joyner). Its primary problem, poor underwriting in the Aetna insurance unit, is fixable. We expect mid-teens annualized returns over the next few years as the turnaround progresses.

Biogen trades for less than the value of their current drugs on the market. The market is ascribing no value to Alzheimer's, which could be huge, or to the pipeline. CEO Chris Viehbacher has historically delivered accretive deals, which the market also ignores. Our intrinsic value estimate is more than double the current stock price.

When we add laggards to the portfolio, they typically weigh on short-term performance. We firmly believe the best path to riches is uncovering opportunities where market expectations fall far short of business fundamentals. The investor subset willing to buy into price weakness is a vanishing breed. Another big change since I entered markets, and one that creates both risks and opportunities. It creates more extreme price moves, elevating the risk of being early. It also creates more sizeable potential gains.

Short-term trends (or perceptions of trends) matter most to many investors. Gaps between market expectations and intrinsic values don't drive prices, revisions to expectations do. Expectations eventually follow fundamentals, but patience is typically required.

As an example, we've written about our enthusiasm for travel names over the past couple years. Until the fourth quarter, many continued to lag despite strong fundamentals. When the market finally reassessed the odds of a recession, the names surged.

Our stocks (Expedia Group (EXPE $182.62), United Airlines (UAL $103.72), Norwegian Cruise Line (NCLH $25.92), and Delta Air Lines (DAL $61.42)) returned an average of 35% in the quarter vs. SPX's 2%, taking full year returns to 60% and 25%, respectively. Most investors attempt to surf along trends and time their entry perfectly. We do something quite different. We seek areas of pessimism or skepticism where Mr. Market fails to properly price underlying business fundamentals. We then wait patiently for the shift that allows convergence. Patience (and sound analysis) are key.

While the external environment changes constantly, consistency defines our philosophy and process. As the Dalai Lama says, "Open your arms to change but don't let go of your values."

While the future will bring continual change, as always, the core tenets of our philosophy and process will remain constant. We believe human and institutional behavior creates enduring market inefficiencies. If we continue to execute sophisticated fundamental analysis with an intense drive to succeed and mental flexibility, we should be able to continue to deliver excellent results.

Samantha McLemore, CFA
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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 12/31/24, Patient Capital operates independently managing $2.1B 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.

[1] Individual stock prices as of 1/8/25

The **S&P 500 Index (SPX)** is a market capitalization-weighted index of 500 widely held common stocks. 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. The **S&P 500 Value** measures constituents from the S&P 500 that are classified as value stocks based on three factors: the ratios of book value, earnings and sales to price. Investors cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges. The **Nifty Fifty** was a group of 50 large-cap stocks on the New York Stock Exchange that were most favored by institutional investors in the 1960s and 1970s. **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). **Dividend yield** is the ratio of a company's annual dividend compared to its share price. **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. **Revenue per share** measures the amount of revenue generated for each common share outstanding. **Free cash flow (FCF)** is operating cash flow minus capital expenditures divided by the number of shares outstanding. **Return on invested capital (ROIC)** is a ratio that is used to assess a company's efficiency at allocating the capital under its control to profitable investments. We deploy capital into companies that fall into one of three thematic areas: Attractively Valued Compounders (companies that are considered to be market leaders), Emerging Growth (positions with an emerging growth component), and Classic Value (names with more traditional value components). **Basis point** is one hundredth of one percent. **Citigroup's Levkovich Index** uses 11 inputs to gauge the prevailing attitudes of market participants. The **put-call ratio** is a measurement used by investors to gauge the overall mood of a market. **Revenue growth** is the increase in a company's revenue or income over a period of time. Leverage refers to using debt or borrowed funds to amplify returns from an investment or project. **WTI** is the abbreviation for West Texas Intermediate. **Capital expenditures (capex)** are funds used to acquire or upgrade assets such as buildings or equipment.

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.

The views expressed are those of the portfolio managers as of the date indicated, are subject to change, and may differ from the views of other portfolio managers or the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice. All data referenced are from sources deemed to be reliable but cannot be guaranteed. Discussions of individual securities are intended to inform shareholders as to the basis (in whole or in part) for previously made decisions by a portfolio manager to buy, sell or hold a security in a portfolio. References to specific securities are not intended and should not be relied upon as the basis for anyone to buy, sell or hold any security. Portfolio holdings and sector allocations may not be representative of the portfolio manager's current or future investment and are subject to change at any time.

The Fund obtains indirect exposure to Bitcoin through its holding of the Fidelity Wise Origin Bitcoin Trust (FBTC). Bitcoin and other cryptocurrencies are a relatively new asset class and are subject to unique and substantial risks.

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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