As of June 30, 2021, the Ravenstone Equity Portfolio generated a year-to-date positive return of 9.1% net of expenses. The portfolio has also delivered three-year, five-year and since inception annualized returns of 20.3%, 17.0% and 16.4%[1].

Our intention is to use these semi-annual letters as a means to keep you informed of important business matters and portfolio updates, and to provide insight into our investment process.

Business Update

It has been a busy year for us. Since writing to you last, we have welcomed a new partner to Ravenstone and created a new service offering. As many of you know, Paul Bleiwas recently joined the team as Head of Ravenstone Family Office. Paul's expertise is focused on advising high net worth families on matters relating to tax, estate planning, family governance, business strategy, succession planning and real estate. He comes to Ravenstone as a trusted advisor to a select group of families who have sought his expertise in dealing with the complex world of private business and personal family matters.

For more information on Ravenstone Family Office, please feel free to reach out to us directly or simply click on the link to our updated website: https://ravenstonecapital.ca/solutions.php.

Portfolio Update - Selling Stocks

Investing in high quality, growing businesses gets you only part of the way to a successful outcome. Knowing when to sell can be just as important. There are four reasons why we sell:

1) if there is an adverse permanent change in the long-term fundamentals of the business
2) if we made a mistake and our thesis was wrong
3) if a superior alternative risk/reward opportunity has presented itself, or
4) the business is clearly overvalued

In April of last year, we sold our position in JP Morgan (JPM) after originally purchasing shares following the Great Financial Crisis. Although we made a reasonable profit, the stock has increased significantly since our sale. We sold because it is our view that structural changes are occurring in the banking industry that are adversely impacting the long-term fundamentals of JPM's business. From our lens, banks as we know them are under threat.

Over the past two decades, we witnessed technological disruption alter several industries, including retail, movie theatres, cable companies, radio operators, and traditional advertisers. Digital disruption has come to banking at last. The widespread adoption of internet enabled mobile devices, cloud computing, and artificial intelligence, has created a confluence of factors that suggest the moment for change to traditional banking is upon us. Fintech companies like Square, PayPal and Sofi, to name a few, have managed to attract millions of customers at a faster speed than the much larger banks. Incumbent banks have been hamstrung by regulation for years. Large, bureaucratic financial institutions tend to operate with obsolete legacy technology systems, making it more difficult to thrive in an increasingly digital world. Traditional banks will be required to spend excessive amounts of money to update existing service models and IT infrastructure in response to the growing threat of smaller, more agile, user-friendly competitors.

Many financial products sold to bank customers today are outdated. By using technology to re-imagine banking, fintech is confident in its ability to achieve economies of scale in these massive end markets. Consumers no longer see it as risky to deal with smaller niche players as they search for an improved customer experience that is less expensive and more accessible. Fintech is increasingly winning the battle by focusing on consumer needs and demonstrating how to deliver a more convenient experience in a safe and efficient ecosystem. There has been (and will continue to be) significant capital poured into the fintech market. In 2020, there were 21 fintech IPOs totaling more than US$14 billion. Even Walmart is trying to seize on the opportunity. In March of 2020, Walmart announced the hiring of two Goldman Sachs senior consumer bankers to help lead its new fintech initiative.

[1] *Performance of the Ravenstone Equity Trust I Series Units is used to reference the Ravenstone Equity Portfolio results. Performance calculation is to June 30, 2021. Inception date is April 1, 2016.*

On a recent conference call, in response to a question regarding competition from fintech companies, Jamie Dimon, JP Morgan's CEO, is quoted saying: *"Absolutely we should be scared s---less about that"*. He went on to say that he sent his deputies a list of global competitors to keep an eye on, including PayPal, Square, Stripe, Ant Financial, Amazon, Apple and Google. Relatedly, in JP Morgan's 2020 annual report, Dimon stated *"Banks have enormous competitive threats — from virtually every angle [...] Fintech and Big Tech are here... big time!"*[2].

Why then has the share price risen more than 70% since we sold?

In the fall of 2020, increased clarity around the US presidential election and the announcement of COVID vaccines set the stage for sharp rallies in companies hurt by the pandemic. With the planned vaccine roll-out came the prospect of a faster economic recovery that began to be priced into asset markets globally, most notably, in sovereign bonds. The 10-year US treasury yield increased from roughly 50 basis points (.50%) in March of 2020, to a peak of approximately 175 basis points (1.75%) one year later. Rising interest rates led to a steepening of the yield curve which further boosted the enthusiasm for financial stocks. The ensuing rotation into what are generally perceived as value stocks continued throughout the first half of this year. We view this shift as short-sighted and potentially dangerous given the significant risk of regulation and technological disruption facing the financial sector.

The underlying principle of our investment philosophy is that, over time, the growth of your portfolio will revert to the underlying earnings and free cash flow growth of the businesses that you own. While JPM and other large financial institutions may do just fine in the future, we prefer to look elsewhere given the long-standing moat protecting banks is quickly shrinking. Andrew Marks, the son of famed investor Howard Marks, was recently quoted saying *"what retailers were to the last decade, banks will be to this decade."*

As always, we are grateful for your business and your ongoing trust. Please do not hesitate to contact us if you have questions or if you would like to discuss your portfolio.

Sincerely Yours,

Daymon Loeb | Adam Donsky | Paul Bleiwas

[2] *https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/investor-relations/documents/ceo-letter-to-shareholders-2020.pdf (p. 28)*