



2022 Year End Letter

Performance matters, and while it is not everything we offer at Ravenstone, it is table stakes.

2022 was a disappointing year for the Ravenstone Equity investment strategy. The Ravenstone Equity Portfolio¹ declined by 21.2%, net of expenses in 2022. That said, we have always maintained that short-term performance (to the upside or downside) is meaningless and that only in the long run, will it become clear whether we (and our investment process) are adding value.

Despite the disappointing performance last year – where we underperformed both the S&P 500 and S&P/TSX indices – we have still managed to generate strong annualized absolute returns over both three-year and five-year time frames, as well as outperform both indices over the same periods.

As of December 31, 2022			
	1 Year	3 Year	5 Year
Ravenstone Equity	-21.2%	9.2%	12.0%
S&P 500	-18.1%	7.7%	9.4%
S&P/TSX	-5.8%	7.5%	6.9%

Our investment objective has always been and continues to be focused on compounding your capital at attractive tax efficient, real rates of return over time. For a closer look at the breakdown of the since inception results by calendar year, please see below:

Series I Historical Performance (% Net of Expenses)						
2016*	2017	2018	2019	2020	2021	2022
+ 7.6%	+ 11.3%	+ 4.1%	+ 29.7%	+ 25.5%	+ 31.8%	- 21.2%
*Partial year; since inception date is April 1, 2016						

Our historical track record would indicate that our investment philosophy works effectively and consistently. One year of disappointing performance does not alter the fundamentals of investing, nor will it alter our approach – in fact, it is during these challenging times that experience, a sound investment process and patience should be leaned on most. The economic challenges we face today are serious, but history suggests most are manageable and will ultimately pass. We believe that trying to consistently predict macro events and the market reactions to them is futile. Instead, we prefer to rely on the ownership of high-quality cash-flowing businesses and “money good” loans to deliver through both good and difficult times.

Investing is not about avoiding risk – it is about managing risk. Diversification is a basic, but misunderstood risk management strategy that we use to balance portfolios with a combination of equity, fixed income, and more recently, alternatives. With 2022 being an anomaly in terms of diversification benefits (stocks, bonds and just about all other asset classes declined in value), much has been said about the demise of the traditional 60/40 portfolio². We believe this assertion to be misguided. In fact, a well-managed, appropriately balanced portfolio³ is now set up to achieve attractive returns, partly due to the recent spike in interest rates. Bonds are once again, income generating vehicles, offering attractive yields, especially in tax-exempt accounts. We will continue taking advantage of higher rates at the short end of the curve, by purchasing discounted, corporate bonds with minimal default risk.

In late November, legendary investor, Howard Marks, released another one of his investment memos titled What Really Matters. Warren Buffett has called these memos “must reading” (link to full memo below⁴). In our opinion this is one of his best.

According to Marks, **what doesn't matter to investors** is the following:

- Short-term events: “the short run is by far the least important thing. What matters is the long run. We try to buy the stocks of companies that will become more valuable and the debt of companies that will pay their debts. It's very simple.”
- Trading Mentality: “the changes investors make are unlikely to be consistently right.”
- Short-term Performance
- Volatility
- Hyper-Activity

¹ The Ravenstone Equity Trust Series I Units performance is used to reference the Ravenstone Equity Portfolio.

² 60% Equity, 40% Fixed Income.

³ Each client has a tailored, asset mix strategy that matches their specific risk tolerance and investment objectives.

⁴ Marks memo: <https://www.oaktreecapital.com/insights/memo/what-really-matters>



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What does matter?

“What really matters is the performance of your holdings over the next five or ten years (or more) and how the value at the end of the period compares to the amount you invested and to your needs.” Marks suggests that more investors would be successful if they focused less on the short run or macro trends and instead worked hard to gain superior insight concerning the outlook for fundamentals over multi-year periods in the future. At Ravenstone, we try hard to tune out concerns about politics and the economy. In our experience, it is detrimental to compounding capital when concerns about politics and/or the economy, including elections, trade wars, and Fed policy, are allowed to influence our investment decisions. It is important to keep in mind that the financial press and Wall Street are constantly competing for your attention for their own benefit – not yours. They are, by definition, trying to maximize the noise – constantly trying to convince you to either buy or sell.

In managing your portfolios, we follow the advice of our late mentor, Ned Goodman to “always expect the unexpected.” Prudent asset allocation combined with sound security selection is far more important than guessing on the markets’ near-term direction. At all times, we prefer to own businesses that will not only survive any economic environment but ultimately, will thrive. The same can be said for the corporate bonds that you own – like Marks says, “we try to buy the debt of companies that will pay their debts.” Keeping it simple makes sense to us and is a winning formula over time.

Two industries that we believe exhibit durable, secular growth characteristics with compelling long-term opportunities include Healthcare and domestic Manufacturing. Highlighted below are two important examples of your investments in both areas.

Thermo Fisher Scientific Inc.

Globally we have an aging problem. The share of the global population aged 65 years or above is projected to rise from 10 per cent in 2022 to 16 per cent in 2050. Aging brings with it more health issues in general. The use of medical services increases dramatically as people age; this demographic trend should support strong demand growth for healthcare products and services for many years to come. Thermo Fisher Scientific Inc. is a healthcare sector juggernaut that produces and supplies scientific instruments, chemicals, consumables and offers contract manufacturing and research services. The company plays a vital role in drug discovery, drug development and drug production. As a trusted partner, Thermo Fisher supplies the “picks and shovels” to enable the discovery and manufacturing to those “mining” for innovative ideas to make the world healthier, cleaner, and safer. In our opinion, the company has greatly improved its long-term competitive positioning and has emerged from the pandemic as a stronger and more profitable company. Thermo Fisher has acted as an industry consolidator, making its impressive scale very difficult to compete against.

The company’s fundamental outlook looks very promising. Longer-term, Thermo Fisher expects to deliver 7-9% core organic revenue growth – a full 200 basis points higher than the historical average organic growth rate. There could be additional upside to revenue growth from any future merger or acquisition. Additionally, the company expects to achieve 40-50 basis points of annual margin expansion, resulting in operating profit margins of over 25%, and earnings per share growth of +14-15%. Despite all this, the stock finished the year down 17.5%. Often, in the short term, stock prices disconnect from a company’s economic worth – especially in times of heightened volatility. Why? Because in the short term, humans are driven by psychology and emotions. We believe that at current valuation metrics, the risk/reward is very compelling. As such, we took advantage of the share price decline by acquiring more Thermo Fisher shares and increasing our ownership in an excellent business.

North American Railroads

Your investments in the railroad industry consist of Canadian National Railway and more recently, Canadian Pacific Railway. These two holdings provide you with incredible leverage to the resurgence of industrial production and the reshoring of manufacturing. American manufacturers are increasingly looking to bring production back to the United States to strategically reduce reliance on vulnerable global supply chains that proved to be disruptive during the pandemic and to this day. Taiwan Semiconductor, General Motors, Intel and US Steel are among companies that have announced plans to open new factories in America. Increased manufacturing will translate into growing demand for the movement of more goods across the continent. We believe, major railroads will once again play an increasingly important role in supporting North American economic growth. Railways haven’t changed much in recent decades and the barriers to entry are immense. We are confident that your railroad businesses will play an increasingly key role in delivering goods across North America for many years to come. To understand how essential railroads really are, consider the fact that, in



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December 2022, US Congress cleared legislation to head off a holiday-season rail strike, after President Biden warned that a disruption of service could cause dire economic damage. Railroad companies are toll booth businesses. They are the major arteries and essential infrastructure to North American trade. Canadian Pacific Railway recently completed their transformational acquisition of a coveted US railroad company, Kansas City Southern. The combined company will be the only railroad that links Canada, the U.S. and Mexico, allowing freight to be moved seamlessly around the continent.

While no business is immune to macroeconomic conditions like the ones currently affecting the financial markets, we take comfort knowing that we are minority owners of extraordinary businesses and lenders to credit worthy borrowers who will honor their debts. Many of these businesses have been through more challenging environments than the one we find ourselves in today. Along with resilient balance sheets, each company that you own is growing, innovating, and generating increasingly higher cash flows. This is indeed a tough environment for investors, but as valuations have fallen meaningfully, we are increasingly encouraged that our collective patience will be rewarded.

While the past is never a perfect indication of the future, investors can find comfort knowing that strong recoveries are common after sharp drawdowns. We do believe that the current market presents a better-than-average opportunity set.

Chart 1: US Equity Declines Have Usually Been Followed by Strong Recoveries

S&P 500 Performance After Peak-Trough Declines of More than 20% Since 1950

Total Return (Includes Dividend Reinvestment)

Peak	Trough	Percent Decline	One-Year Forward Return (Percent)	Three-Year Forward Return (Percent)	Five-Year Forward Return (Percent)	10-Year Forward Return (Percent)
12/12/1961	6/26/1962	-26.9	37.5	75.0	106.2	186.1
11/29/1968	5/26/1970	-32.6	48.9	71.3	56.1	142.5
1/11/1973	10/3/1974	-44.8	44.4	76.8	122.9	326.4
11/28/1980	8/12/1982	-20.2	66.1	110.3	299.2	495.0
8/25/1987	12/4/1987	-32.8	26.0	62.3	128.7	481.7
3/24/2000	10/9/2002	-47.4	36.1	62.4	119.5	130.1
10/9/2007	3/9/2009	-55.2	72.3	115.8	208.3	399.6
2/19/2020	3/23/2020	-33.8	77.8	???	???	???
1/3/2022	9/30/2022	-24.4	???	???	???	???
Average		-35.3	51.1	82.0	148.8	308.8

Past performance and current analysis do not guarantee future results.

As of September 30, 2022; Forward returns are cumulative and from the identified trough date

Source: Bloomberg and AllianceBernstein (AB)

<https://www.alliancebernstein.com/corporate/en/insights/investment-insights/from-fear-to-hope-how-stocks-perform-after-deep-drawdowns-corporate.html>

History clearly shows that investors who waited for signs of an economic recovery before investing missed out on significant gains. As the saying goes: "more investors have lost money predicting a recession, than in a recession itself."

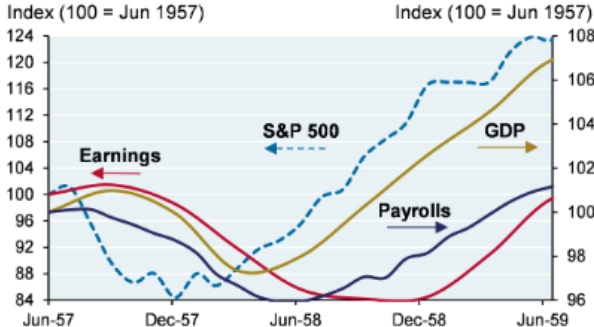
Time after time the equity market began recovering while the economic situation appeared to be at its worst. Markets are forward-looking and typically bottom 6-9 months before corporate earnings stop going lower (see Chart 2 below). For long-term investors, it is precisely during these trying periods that the purchasing shares of high-quality businesses at favourable prices sets the stage for attractive future returns. While difficult, this strategy has rewarded our clients over the years and through various market cycles.



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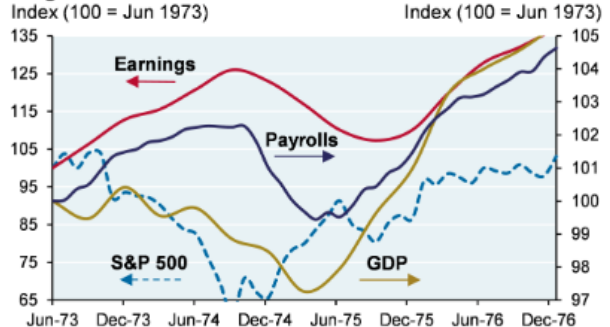
Chart 2: Stocks have historically been a leading indicator of the economy

Eisenhower recession



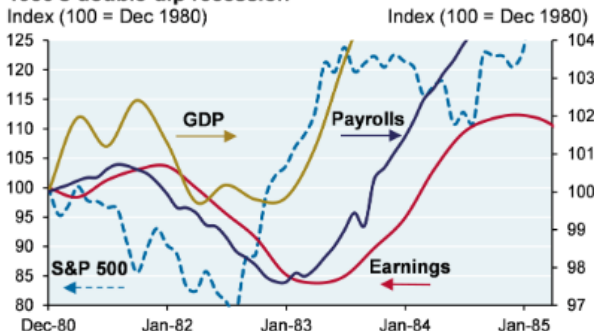
Source: BEA, Bloomberg, Robert J. Schiller, JPMAM. 2022. Note: Earnings is represented by S&P 500 EPS rolling 4Q avg.

Stagflation era of the 1970's



Source: BEA, Bloomberg, Robert J. Schiller, JPMAM. 2022. Note: Earnings is represented by S&P 500 EPS rolling 4Q avg.

1980's double-dip recession



Source: BEA, Bloomberg, Robert J. Schiller, JPMAM. 2022. Note: Earnings is represented by S&P 500 EPS rolling 4Q avg.

S&L crisis of the 1990's



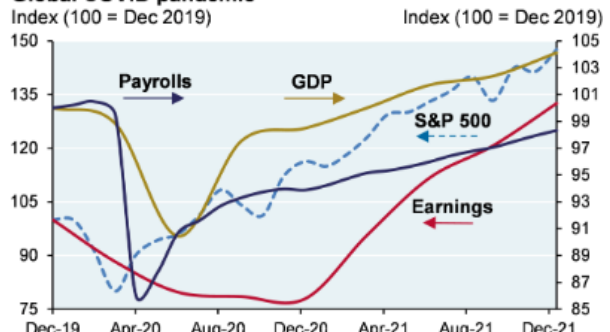
Source: BEA, Bloomberg, S&P Dow Jones, JPMAM. 2022. Note: Earnings is represented by S&P 500 EPS rolling 4Q avg.

Global financial crisis



Source: BEA, Bloomberg, S&P Dow Jones, JPMAM. 2022. Note: Earnings is represented by S&P 500 EPS rolling 4Q avg.

Global COVID pandemic



Source: BEA, Bloomberg, S&P Dow Jones, JPMAM. 2022. Note: Earnings is represented by S&P 500 EPS rolling 4Q avg.

<https://am.jpmorgan.com/ca/en/asset-management/institutional/insights/market-insights/eye-on-the-market/reruns/>



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Thinking and acting like business owners continues to guide our decision making. The combination of this mental framework with the ownership of high-quality businesses continues to be the most rational method of protecting capital and generating attractive, tax-efficient, real returns over time.

As always, we would like to take this opportunity to thank you for your trust in us – we continue to manage your family's wealth as if it is our own.

Please feel free to reach out with any questions or comments, or if you would like to arrange a time to meet. We are always available to you.

Best regards,

Daymon Loeb

Adam Donsky

Paul Bleiwas

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