

LEWIN CAPITAL MANAGEMENT LTD.

September 7, 2023

Dear clients and friends,

Re: Fifteen Years

2023 marks the fifteenth anniversary of LCM and with this occasion I thought I would take a moment to reflect on our results and how we have achieved them. In the last fifteen years, LCM has earned a return of 13.8%ⁱ per year. We have accomplished our primary goal to earn an absolute return in excess of 7% per year over the long term. When our results are compared to a fully invested 50/50 Canada/United States Index portfolio, LCM has beaten that by 4.7% per year. According to the institutional surveys, in the past five years LCM has outperformed 95% of Canadian Equity Funds and 75% of US Equity Funds.ⁱⁱ

Fifteen years along, I am convinced that the philosophy LCM adopted at the outset is the key to our success. My idea was to create an investment environment free from the pressures and constraintsⁱⁱⁱ of the mainstream investment industry to make it easier for the investor to focus on what is important, invest for the long term and ultimately make more money for the clients. LCM has stayed true to its founding principles, which are a long-term mindset, deep due diligence, a focused portfolio and defining risk as capital loss rather than volatility. LCM's high level of focus is evident in that we have invested in only 19 businesses in the past fifteen years. These were our best ideas. They were investments in decent quality companies, squarely in our circle of competence, priced well below our calculations of intrinsic value, and most importantly these investments had low risk of capital loss at the time of purchase. This degree of selectivity certainly requires patience and discipline, and it has meant that not all of our capital was always invested, but it has paid off in the form of better risk-adjusted returns.^{iv}

Looking forward, there appears to be a lot of risk in the market. Valuations appear stretched, especially for the largest companies, and the outlook for the economy, having only partly digested the recent increases in interest rates, does not seem robust. Despite these concerns, we are excited about the eclectic mix of attractively-priced businesses we own currently, and we expect our patient and disciplined approach will continue to enable us to achieve our goals.

I am sincerely grateful for the trust you have placed in LCM, and for granting me the privilege to 'paint my own canvas'. If we have not had a chance to have our annual lunch yet this year I will reach out in the coming weeks to see if you are available.

Kind regards,

Daniel Lewin CFA
President

LCM results*

Performance to June 30, 2023

	One Year	Three Years (Annualized)	Five Years (Annualized)	Ten Years (Annualized)	Fifteen Years (Annualized)	Fifteen Years (Cumulative)
LCM Portfolio	9.6%	23.3%	13.8%	13.3%	13.8%	591.6%
50/50 North American Equity Index Portfolio	16.6%	13.0%	10.0%	11.9%	9.1%	268.8%
LCM Outperformance	-6.9%	+10.3%	+3.8%	+1.4%	+4.7%	+322.8%

- Long term goal is to earn in excess of 7% per year on average. Fifteen year cumulative return of 591.6% corresponds to 13.8% annualized return from inception date of June 30, 2008.
- Over the past year the US market has been difficult to keep up with, with returns driven by increasing valuations of a handful of the largest technology companies.
- Over the past 3 years the strong returns are a function of good stock selection, and having capital available to deploy into the fear of the pandemic in 2020.

* Please see footnote on top of page 3 for full description of performance reporting.

ⁱ All stated returns are gross of fees. We take pride in ensuring that our fees are fair and reasonable for the service LCM provides. If you would like a copy of LCM's Investment Management Agreement that outlines our fees and services in more detail, please contact us. Returns for LCM are from a representative account as all client assets are held on a segregated basis. Small differences will occur between accounts due to rounding and the timing of cash flows. The S&P TSX Composite Total Return Index is used to represent the Canadian stock market returns, and has returned 5.4% per year over the fifteen years ended June 30, 2023. The S&P 500 Total Return Index translated into Canadian dollars is used to represent the U.S. stock market returns, and this index has earned 12.8% per year in Canadian dollar terms over this same period. Thus LCM's returns of 13.8% per year has beaten a simple average of the Canadian and U.S. Stock Markets by 4.7% per year since inception. "Since inception" refers to the fifteen-year period from June 30, 2008 to June 30, 2023.

ⁱⁱ Fifteen year performance data is not published by the institutional surveys, so instead we had to look at the rankings from the past five years of returns, and also consider the rankings we wrote about in 2018 on the ten year anniversary of LCM. Data on institutional manager returns and percentile breaks, specifically for the Canadian Equity and US Equity categories, are provided by RBC Investor and Treasury Services Q2 2023 Pooled Fund Survey and Mercer Investment Performance Survey of Canadian Pooled Funds ended June 30, 2023. For the five-year period ended June 30, 2023, *and* the ten-year period ended June 30, 2018, LCM beat 95% of Canadian Equity Funds and 75% of US Equity Funds in both surveys, and in both time periods.

ⁱⁱⁱ In past annual letters we have discussed these industry constraints. For example, short-term reporting horizons, unfocused and over-diversified 100-plus stock portfolios, and policies of having to be fully invested all the time no matter the opportunity all make it harder for the investor to make money for the clients.

^{iv} An added benefit of long holding periods and low turnover should also mean LCM's returns are more tax efficient.