2023 Annual Letter

February 6, 2024

Dear Investor,

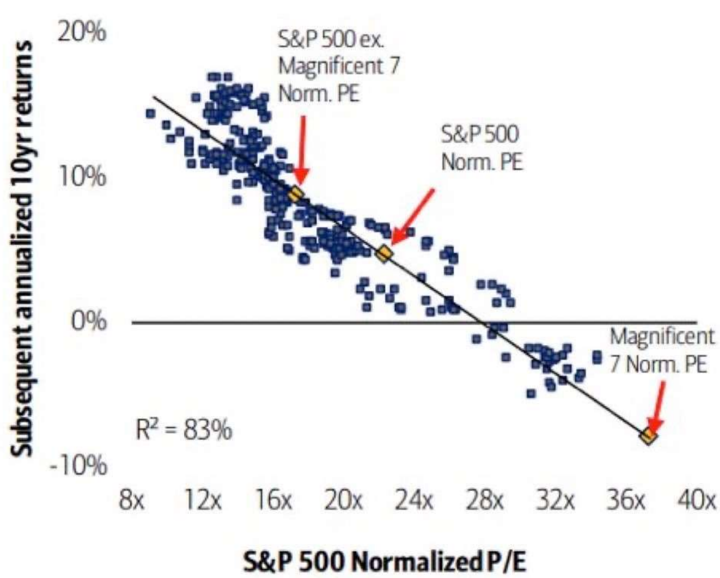
Value oriented, long-term investors view the stock market in time horizons of multiple years and even decades. However, we live in a world of daily and calendar year performance. We believe multi-decade outperformance is the key and minimizing losses is critical to this. As Warren Buffett says "Rule #1 Don't lose money. Rule #2 Don't forget Rule #1." Over the past five years, the Greenfield Seitz Composite grew 10.8% annualized (net of all fees) while experiencing less than half of the downside of the market.

2023 was a year marked by the outperformance of a handful of mega-cap technology stocks. The "Magnificent 7" returned 87% last year and these seven stocks comprised 70% of the entire S&P 500's gain.[1] This was a record for concentrated returns. In fact, the S&P 500 was up 26.2% while the median stock was only up 8% last year.[2] The Russell 1000 Growth Index outperformed the Value Index by 30% largely because the "Magnificent 7" were all growth stocks. As impressive as the 26% gain was last year, it only got the market back to even after 2022's 18% loss. This shows the importance of not losing money, plus you can sleep better at night.

We largely avoided the technology sector recently as we did in the 1999 Dot-com mania. This benefited us enormously in 2022 but hurt us in 2023. Additionally, in 2023 our energy holdings performed poorly. But energy stocks have been the best performing sector for the past three years, with a 3-year growth rate of 36% compared to 15% for the technology sector and 10% for the S&P 500.

Valuation is one of the strongest predictors of future returns. Based on 35 years of data, P/E ratios explain 83% of future returns. The "Magnificent 7" has a P/E of 37x while the average stock has a P/E of 17x. In fact, the technology sector is now valued at a 50% premium to its 20-year average valuation. The chart below shows that when stocks reach a P/E above 28x, the ten-year future returns are usually negative.

Exhibit 31: Valuation explains 80% of returns over the next decade
S&P 500 normalized P/E vs. subsequent annualized returns (since 1987, forecasts as of 11/17/23)



Source: BofA US Equity & Quant Strategy, FactSet, Haver Analytics

Warren Buffett is the King of long-term, value investing. It is comforting to see him coming to similar conclusions to Greenfield Seitz. Last year, Buffett raised his cash pile to $160 billion, which was a record.[3] As someone who has preached stocks over cash, we must assume he thinks stocks are expensive and offer little value presently. He has invested this cash pile into 6-month treasuries. We noted in our June letter that 6-month treasuries now offer a higher yield than the S&P 500. Treasuries also offer safety over stocks. It is important to remember the 2009 crash erased the previous six years of stock market gains. We are trying to grow your capital while also avoiding significant losses.

With the Fed raising rates from 0% to 5.3%, the yields on treasury bonds have increased significantly. The yield on 6-month Treasury Bills is now roughly 5.25%. After years of low interest rates, investors are now "paid to wait" in government Treasury Bills. With the market at historically high valuations, we like the ability to get a nice return from fixed income.

Last year, Buffett's Berkshire Hathaway was a net seller of stocks. But he was a buyer of energy stocks. Occidental Petroleum and Chevron are now his 5th and 6th largest positions. Energy stocks comprise roughly 15% of his portfolio compared to just 4% of the S&P 500. We also see value in this unloved sector.

Novo Nordisk (NVO)
Danish pharmaceutical company, Novo Nordisk, has been one of our most consistent and best performing holdings over the last several years. Novo has delivered double-digit returns for the last five years: 2023 +53%, 2022 +21%, 2021 +60%, 2020 +21% and 2019 +26%.

The company was founded 100 years ago in 1923 by Nobel Prize winner, August Krogh, and his wife, a diabetic and fellow scientist. The couple acquired and refined a formulation for insulin. Their company would grow to become the world's leading manufacturer of insulin with a focus on diabetes. Greenfield Seitz was initially attracted to Novo for the powerful demographic trend of diabetes. The number of diabetics worldwide grew from roughly 100 million in 1980 to over 500 million today and is expected to reach 800 million by 2045.[4]

In 2012, Novo developed semaglutide (brand name Ozempic), a once-a-week injection for Type 2 diabetics. It was discovered that semaglutide suppressed hunger, opening the door for use as a weight loss drug. Novo Nordisk currently has three semaglutides used for weight loss (Wegovy, Ozempic & Rybelsus). Patients have also reported a reduction in addictive behaviors such as smoking and drinking.

Demand for its weight loss drugs have been so strong that Novo has been unable to keep up with the demand. In May 2023, they had to ration the lower strength starter dose of Wegovy used by new patients in the U.S. to ensure availability of the higher doses for existing patients. Just this month they have started gradually increasing the supply of Wegovy to new patients. In 2023, Novo grew sales 36% and profits 44%. Its core insulin business was boosted by obesity care (semaglutides) sales growth of 154%. Novo has grown to be Europe's largest company by market capitalization and the largest taxpayer in its home country of Denmark.

Outlook
We take comfort seeing that Buffett is investing in a similar fashion to Greenfield Seitz. It seems high yielding treasuries and unloved energy stocks are compelling to both of us. Protecting your investments is Rule #1 for us. At a time of record stock market valuations, we are pleased to have an alternative with higher yielding T-Bills. The "dry powder" in T-Bills allows us the opportunity to take advantage of any stock market selloff.

We think the future will continue to have higher inflation & interest rates than the period of historically low rates from 2009-2021. Energy stocks typically do well in inflationary environments.

As long-term investors, we aim to invest in great companies at an attractive price (valuation). This process is determined by current fundamentals, valuations, and the outlook for each company.

As always, please contact us anytime if you have any questions.

Sincerely,

Greenfield Seitz Capital Management

GREENFIELD SEITZ CAPITAL MANAGEMENT

Past performance does not guarantee future results.
1 Standard & Poor's. January 2024
2 Grindstone Intelligence. 2024
3 Berkshire Hathaway. SEC 13F filing. 2023
4 World Health Organization. 2023
All company information is from company filings

Past performance does not guarantee future results. This performance report should not be construed as a recommendation to purchase or sell any particular securities held in composite accounts. The market value of securities fluctuates, and you may incur a profit or a loss. This analysis does not include transaction costs and tax considerations. The material included in this presentation is for informational purposes only and is not intended as an offer or a solicitation to buy or sell any securities. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. You should consider our investment objectives, risks, and fees carefully before you invest.

Any views or opinions presented in this presentation are solely those of GSCM. While the information contained in this presentation is believed to be reliable, no representation or warranty, whether express or implied, is made and no liability or responsibility is accepted by GSCM as to the accuracy or completeness thereof.

Special risks are involved with global and international investing related to market and currency fluctuations, economic and political instability, and different financial accounting standards. These risks are magnified by emerging markets.

Please visit www.gscapital.net for additional disclosures or to view our updated Form ADV.

Greenfield Seitz
CAPITAL MANAGEMENT

2023 Annual Letter

February 6, 2024

Dear Investor,

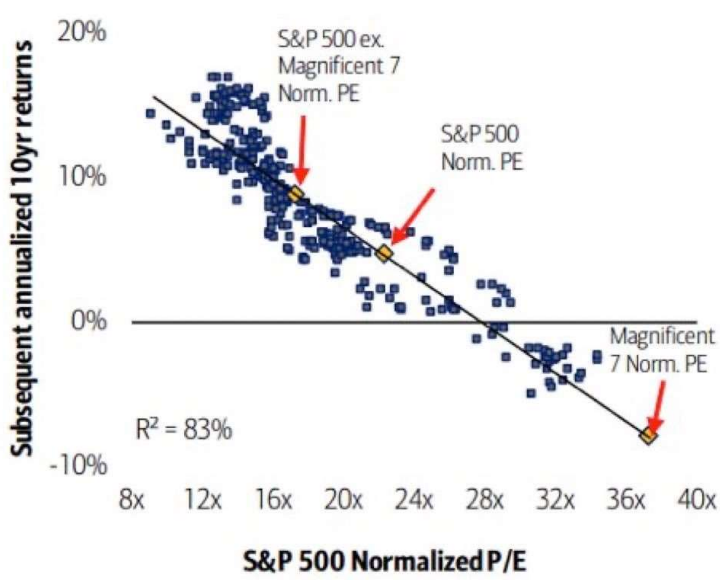
Value oriented, long-term investors view the stock market in time horizons of multiple years and even decades. However, we live in a world of daily and calendar year performance. We believe multi-decade outperformance is the key and minimizing losses is critical to this. As Warren Buffett says “Rule #1 Don’t lose money. Rule #2 Don’t forget Rule #1.” Over the past five years, the Greenfield Seitz Composite grew 10.8% annualized (net of all fees) while experiencing less than half of the downside of the market.

2023 was a year marked by the outperformance of a handful of mega-cap technology stocks. The “Magnificent 7” returned 87% last year and these seven stocks comprised 70% of the entire S&P 500’s gain.[1] This was a record for concentrated returns. In fact, the S&P 500 was up 26.2% while the median stock was only up 8% last year.[2] The Russell 1000 Growth Index outperformed the Value Index by 30% largely because the “Magnificent 7” were all growth stocks. As impressive as the 26% gain was last year, it only got the market back to even after 2022’s 18% loss. This shows the importance of not losing money, plus you can sleep better at night.

We largely avoided the technology sector recently as we did in the 1999 Dot-com mania. This benefited us enormously in 2022 but hurt us in 2023. Additionally, in 2023 our energy holdings performed poorly. But energy stocks have been the best performing sector for the past three years, with a 3-year growth rate of 36% compared to 15% for the technology sector and 10% for the S&P 500.

Valuation is one of the strongest predictors of future returns. Based on 35 years of data, P/E ratios explain 83% of future returns. The “Magnificent 7” has a P/E of 37x while the average stock has a P/E of 17x. In fact, the technology sector is now valued at a 50% premium to its 20-year average valuation. The chart below shows that when stocks reach a P/E above 28x, the ten-year future returns are usually negative.

Exhibit 31: Valuation explains 80% of returns over the next decade
S&P 500 normalized P/E vs. subsequent annualized returns (since 1987, forecasts as of 11/17/23)



Source: BofA US Equity & Quant Strategy, FactSet, Haver Analytics

Warren Buffett is the King of long-term, value investing. It is comforting to see him coming to similar conclusions to Greenfield Seitz. Last year, Buffett raised his cash pile to $160 billion, which was a record.[3] As someone who has preached stocks over cash, we must assume he thinks stocks are expensive and offer little value presently. He has invested this cash pile into 6-month treasuries. We noted in our June letter that 6-month treasuries now offer a higher yield than the S&P 500. Treasuries also offer safety over stocks. It is important to remember the 2009 crash erased the previous six years of stock market gains. We are trying to grow your capital while also avoiding significant losses.

With the Fed raising rates from 0% to 5.3%, the yields on treasury bonds have increased significantly. The yield on 6-month Treasury Bills is now roughly 5.25%. After years of low interest rates, investors are now "paid to wait" in government Treasury Bills. With the market at historically high valuations, we like the ability to get a nice return from fixed income.

Last year, Buffett's Berkshire Hathaway was a net seller of stocks. But he was a buyer of energy stocks. Occidental Petroleum and Chevron are now his 5th and 6th largest positions. Energy stocks comprise roughly 15% of his portfolio compared to just 4% of the S&P 500. We also see value in this unloved sector.

Novo Nordisk (NVO)

Danish pharmaceutical company, Novo Nordisk, has been one of our most consistent and best performing holdings over the last several years. Novo has delivered double-digit returns for the last five years: 2023 +53%, 2022 +21%, 2021 +60%, 2020 +21% and 2019 +26%.

The company was founded 100 years ago in 1923 by Nobel Prize winner, August Krogh, and his wife, a diabetic and fellow scientist. The couple acquired and refined a formulation for insulin. Their company would grow to become the world's leading manufacturer of insulin with a focus on diabetes. Greenfield Seitz was initially attracted to Novo for the powerful demographic trend of diabetes. The number of diabetics worldwide grew from roughly 100 million in 1980 to over 500 million today and is expected to reach 800 million by 2045.[4]

In 2012, Novo developed semaglutide (brand name Ozempic), a once-a-week injection for Type 2 diabetics. It was discovered that semaglutide suppressed hunger, opening the door for use as a weight loss drug. Novo Nordisk currently has three semaglutides used for weight loss (Wegovy, Ozempic & Rybelsus). Patients have also reported a reduction in addictive behaviors such as smoking and drinking.

Demand for its weight loss drugs have been so strong that Novo has been unable to keep up with the demand. In May 2023, they had to ration the lower strength starter dose of Wegovy used by new patients in the U.S. to ensure availability of the higher doses for existing patients. Just this month they have started gradually increasing the supply of Wegovy to new patients. In 2023, Novo grew sales 36% and profits 44%. Its core insulin business was boosted by obesity care (semaglutides) sales growth of 154%. Novo has grown to be Europe's largest company by market capitalization and the largest taxpayer in its home country of Denmark.

Outlook

We take comfort seeing that Buffett is investing in a similar fashion to Greenfield Seitz. It seems high yielding treasuries and unloved energy stocks are compelling to both of us. Protecting your investments is Rule #1 for us. At a time of record stock market valuations, we are pleased to have an alternative with higher yielding T-Bills. The "dry powder" in T-Bills allows us the opportunity to take advantage of any stock market selloff.

We think the future will continue to have higher inflation & interest rates than the period of historically low rates from 2009-2021. Energy stocks typically do well in inflationary environments.

As long-term investors, we aim to invest in great companies at an attractive price (valuation). This process is determined by current fundamentals, valuations, and the outlook for each company.

As always, please contact us anytime if you have any questions.

Sincerely,

Greenfield Seitz Capital Management

GREENFIELD SEITZ CAPITAL MANAGEMENT

Past performance does not guarantee future results.
1 Standard & Poor's. January 2024
2 Grindstone Intelligence. 2024
3 Berkshire Hathaway. SEC 13F filing. 2023
4 World Health Organization. 2023
All company information is from company filings

Past performance does not guarantee future results. This performance report should not be construed as a recommendation to purchase or sell any particular securities held in composite accounts. The market value of securities fluctuates, and you may incur a profit or a loss. This analysis does not include transaction costs and tax considerations. The material included in this presentation is for informational purposes only and is not intended as an offer or a solicitation to buy or sell any securities. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. You should consider our investment objectives, risks, and fees carefully before you invest.

Any views or opinions presented in this presentation are solely those of GSCM. While the information contained in this presentation is believed to be reliable, no representation or warranty, whether express or implied, is made and no liability or responsibility is accepted by GSCM as to the accuracy or completeness thereof.

Special risks are involved with global and international investing related to market and currency fluctuations, economic and political instability, and different financial accounting standards. These risks are magnified by emerging markets.

Please visit www.gscapital.net for additional disclosures or to view our updated Form ADV.