To our clients,

Clearly, we are in a period where unprecedented events are impacting all businesses and economies. These events have caused most share prices to decline over the past few months. Contributing factors are the impact of the Russia/Ukraine war, rising interest rates, worldwide supply constraints of many important products, materials and qualified people, rapidly rising inflation, and the continued impact of Covid-19.

Combined, all these factors have, more-or-less, impacted many companies' revenues and earnings. Many of our companies have recently reported their first quarter results and they are a mixed bag. The majority of our companies continue to report strong earnings. And a few are reporting declines in certain areas of their businesses.

Obviously, we like to see solid results through all economic conditions. But that is not reasonable or expected. Results will always vary quarter to quarter, some companies more than others. Amazon is a company that has always reported erratic quarterly results due to their accounting practices. They expense everything they can with zero regard to the impact on short-term reported earnings. The company has doubled their shipping capacity worldwide over the last two years. As a result, their expenses in the consumer business have accelerated upwards. The investment in added capacity is the right thing to do for the long-term, but it impacts short-term financial results. Alternatively, Amazon Web Services continues to grow at very high rates and shows the best profit margins amongst competitors.

We try to stay focused on the relevant fundamentals through periods of disruption or a slowdown. We try to stay aware of any permanent impairment in our businesses which is not always visible in quarterly results. For instance, a decline in earnings does not automatically equal a permanent impairment in the value of a business or change its long-term prospects … even though the share price may decline. Not reacting irrationally to short term movements in share prices or short-term corporate results is central to investing successfully through these challenging periods.

It is also interesting to see how some companies' managers react during these challenging periods. Historically, the smart ones take these opportunities to make long-term investments, often at prices that later look highly discounted. In our case, almost every company we own have accelerated their share repurchases and several have made some interesting acquisitions.

Based on everything we know, none of our companies have incurred a serious impairment to their value through this period. For sure, there has been some impairment related to closing businesses in Russia, but this is minor in all cases.

In our view share prices have overreacted on the downside to the current risks impacting many businesses. As such, we are seeing some of the most favourable share price-to-values we have seen in many years. We have not made any changes to our portfolio of companies. We are happy with the companies we own. New capital is being invested in current holdings.

Please do not hesitate to call or write us if you have questions or would like to discuss any holdings.

Joe Little, Shafaz Jivani, Kevin Greig