

Thank you!

March 31, 2005 marked our five-year anniversary and we want to thank all of you, our clients, for helping us to reach this important milestone. We truly could not have come this far without your trust and confidence. Just as importantly, your words of encouragement and positive feedback have made the past five years very rewarding and enjoyable.

We believe that we have earned your trust. We have kept our commitments and promises to you both in how we invest your capital and in how we have managed our business. When we started five years ago we stated that we would only purchase those investments that met our criteria for absolute value and quality. In addition, we also stated that we would focus on the preservation of capital. . As you can see through your portfolios we have been unwavering in our investment philosophy, process and discipline. We have not blinked!

Ever since our inception we have stated that we would operate PCM in such a way that put our fiduciary responsibility to you before our business interests. We can proudly state that after five years our actions have matched our words. We have remained extremely low cost and have only carried out expenditures when we were certain that we could afford them. As a result, we have been able to decline investment mandates that we felt were not consistent with our focus on absolute value. As promised we have aligned our interests directly with yours. From the very beginning our personal capital has been invested right along with yours.

Despite the challenging investment climate over the past five year period and our difficulty in finding investments that meet our very strict criteria we have managed to outperform all of the major North American equity indices. It is important to note that we have achieved this performance with cash balances that have averaged approximately eighty per cent over the past five years. The table below provides our five-year performance compared to

our benchmarks. As always, we caution that these returns represent past performance and may not be indicative of future performance.

PCM Performance¹
Compound Annual Returns for the five years ending March 31, 2005

PCM Canadian Equity (Non-Taxable)	9.73%
PCM North American Equity (Taxable)	5.03%
TSX 300	1.99%
S & P 500 in CAD	(6.65%)
S & P 500 in USD	(3.16%)
NASDAQ	(15.24%)
Dow Jones Industrial Average	(0.78%)

While we are pleased with our performance we are disappointed that we haven't been able to find more investment opportunities that meet our very high standards for quality, safety and value. When we have found these investment opportunities they have performed very well. Over the past five years our equity investments for our taxable and non-taxable portfolios have returned 25.53% and 39.70% respectively. ²

When we decided to set up our own investment firm we settled on the name Patient Capital because it truly reflected our investment approach. However we did not think that we would have to be this patient!

¹ Unaudited and Gross of Management Fees. Based on Composites

² Unaudited and Gross of Management Fees. Based on representative account for both the Taxable and Non-Taxable Accounts

Past performance is not an indication of future performance.

In March of 2000 we truly believed that over a typical five-year period we would be presented with enough attractive investment opportunities to get us into a fully invested position. As we have come to see the past five years have been anything but typical. While the technology based NASDAQ declined sharply the broader based TSX Composite and S & P 500 have remained largely unchanged. In addition, volatility in the share prices of the businesses that interest us have been unusually muted. Not surprisingly, the high quality investments that we seek have not reached our buy prices.

As some of you may recall, when we “opened for business” five years ago we promptly pronounced that we believed that equities as an asset class would not provide satisfactory returns for the next several years. We based that assessment largely on valuations. We did not believe that future positive returns were possible given the extraordinarily high P/E ratios and historically low dividend yields that existed at the time. More importantly, this view was reinforced by our analysis of individual companies. In all but a few cases valuations were substantially above both historical norms and our calculated “intrinsic value”.

So where do we stand today? In our view it is a case of good news and bad news. First the good news; equity markets are not nearly as overvalued as they were in March of 2000. Five years of essentially flat prices combined with five years of growing earnings have combined to bring equity valuations closer to historical norms. In addition, many of the aggressive accounting and business practices that existed prior to 2003 have abated.

Now for the bad news; equity valuations are still above historical norms. Thus assuming no slowdown in earnings growth (a very big assumption) we would suggest modest returns over the next five years. Once again our view is supported by our difficulty in finding attractive investment opportunities. This low expected return from broad based equity indices is certainly not enough to offset the risks that we outline below.

Five years ago the primary risk was excessive valuation. Today we believe that the primary risks are economic and structural in nature. We believe that the following conditions pose substantial and real risks to future growth, stability and equity returns:

- Consumer and corporate debt are at all time highs
- Oil prices and most other commodity prices have skyrocketed
- Housing prices continue to rise and are now in “bubble territory”
- Leveraged hedge funds engaged in complex strategies could unwind
- Rising interest rates leading to slower growth
- Ballooning U.S. fiscal and trade deficits leading to a currency crisis

Should any one or a combination of the above factors disrupt the current environment of perceived low inflation, continuing economic growth and financial stability potential losses in equity markets could be quite dramatic. We believe that we are likely to see one or more of the factors listed above affect equity markets sometime in the next five years. But then again, five years ago we believed that we would have been fully invested by now.

In contrast to most other investment management organizations we would not fear such a situation; given our very large cash balances and our focus on purchasing high quality businesses at attractive prices we would view such an environment as an opportunity to set the foundation for excellent long term returns.

The recent turmoil in Ottawa has all but obscured the fact that the federal budget did pass with a provision that eliminates the foreign content restriction for pension plans and RRSP's. Once the budget receives Royal Assent, Canadians and their financial advisors will be free to invest their retirement funds in any market that they wish. We believe that this change has significant implications for non-taxable portfolios, Canadian capital markets and Canadian investment managers.

We have been concerned about the lack of diversification and depth in the Canadian equity market for some time. (See our September 30, 2004 Newsletter at www.patientcapital.com) The Canadian equity market represents approximately three per cent of total global equity capitalization. As a result of the new rules, investment managers can now diversify portfolios in accordance with global and/or North American benchmarks. Portfolio managers can now invest more freely in industries and businesses that are not well represented in Canada. The health care and consumer product industries are two examples. Companies such as Coca-Cola and Pfizer are just two large well-capitalized businesses that are now more readily available to Canadians. The only risk that this new investment freedom poses is currency risk. However, the currency can now be hedged in a very cost effective manner.

In our view the new rules will affect the Canadian capital markets quite dramatically. In the longer term publicly traded Canadian companies will have to compete for capital on a global basis. For example, investors will not only compare Canadian banks against their domestic peers but also against other large banks in the U.S., Europe and Asia. In addition, smaller Canadian companies will find it far more difficult to raise capital. Eventually, Canadian equity markets may come to be heavily weighted in resource based companies augmented by several large capitalization businesses such as the current crop of financial institutions, large national retailers and a handful of well managed industrial enterprises.

Canadian investment managers will have to adapt in a significant way. The focus must turn at a minimum to North America. Canadian pension fund managers will have to increasingly compete against global firms. The coming battle will be interesting as we must prove our value against large and established organizations that have been investing globally for a very long time. Disciplined investment processes and sound investment philosophies will become more important than ever.

We are quite excited by the change in the foreign content rules. We believe that the new rules give us the opportunity to select excellent businesses from a broader and higher quality universe of investment candidates. In essence, we now have the ability to purchase the best businesses at the best available prices irrespective of the company's legal domicile on your behalf.

During the past five years we have been very fortunate to have an informal “support group” of friends and professional associates that have offered invaluable advice and guidance. Their reputations for excellence and integrity make us ever more appreciative of their time and counsel.

Former colleagues and friends Bob Krembil, Tony Hamblin, Doug Greaves, Keith Graham, Ian Hardacre, Geoff Macdonald, John DiTomasso, Richard Stoneman, George Morgan, Jim Lampard and Richard Hamm have been more than generous with their encouragement and words of wisdom.

Kevin Gordon at TD Securities, Mike McCormick and Ian Mellon at BMO Nesbitt Burns, Neil May and Francesca Guolo of Goodmans and Jennifer Northcote at Stikemen Elliot have all provided us with a level of service that is on par with their much larger clients. Lee Wong and his team at Toogood Financial have been extremely helpful in assisting Domenic with our portfolio administration.

We owe a particular debt of gratitude to Newport Partners and Keel Capital. They not only have entrusted us with their clients' capital but through their drive for the highest of standards they have inspired us to attempt to try and match their lofty status.

In his seminal book, [The Intelligent Investor](#), Benjamin Graham wrote of investment counselors:

“The leading investment-counsel firms make no claim to being brilliant;

they do pride themselves on being careful, conservative, and competent. Their primary aim is to conserve the principal value over the years and produce a conservatively acceptable rate of income. Any accomplishment beyond that – and they do strive to better the goal-they regard in the nature of extra services rendered. “³

Our hope is that over the next five years you will again have agreed that we fulfilled Mr. Graham’s ideal.

Vito Maida

May 2005

³ Page 259

The Intelligent Investor Revised Edition, Benjamin Graham 1973 Revised Edition Jason Zweig 2003