LESA SROUFE&CO INC.
VALUE ADVISORS

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Second Quarter Update and Outlook

The second quarter was strong for many asset classes. Commodities led the markets in the second quarter with natural gas rising 40%, and crude oil rising 24%. Agricultural commodities rose sharply in price, as well. We believe the economic reopening combined with the unintended consequences of the past extended depressed environment for many cyclical businesses resulted in the subsequent price squeeze. There has been little appetite among the oil and natural gas producers to raise exploration budgets, nor for shipping companies to buy new ships or farmers to buy additional fertilizer. We believe elevated prices will be around for some time.

The LSC portfolios were active in the second quarter with three new additions to the LSC model portfolio and several rebalancing changes. We purchased Enel Chile SA, the electric utility serving the city of Santiago. Enel Chile's renewable generation capacity represents 66% of the company's total installed capacity. We purchased Frontline Ltd., a worldwide transporter of petroleum products. Shipping rates for all sorts of goods are rising, partly due to the stronger economy and due to few new ships being built as a result of the past extended depressed pricing environment. We purchased Heartland Express, a short to medium truckload carrier serving routes across the U.S. and parts of Canada. Heartland is known to have one of the newest fleets of trucks and trailers in the industry yet carries no debt on its balance sheet. We believe the company is well positioned to pick up market share as the economy rebounds and through attractively priced acquisitions. We also added to our position in AngloGold Ashanti, the South African based gold producer. We believe gold producers are inexpensive relative to prospective earnings in coming years.

We reduced our weighting in Alcoa, the worldwide aluminum producer and in Schnitzer Steel Industries, the recycled steel producer. Both companies' stocks had appreciated sharply following an improvement in the pricing environment for many industrial metals over the past year. We remain optimistic that this improved environment after years of depressed pricing may be more long lasting.

Most investors have been conditioned to expect inflation and interest rates to remain low. Yet real interest rates as measured by the current yield offered on U.S. Treasury bonds minus the current inflation rate are as negative as they have been since the 1970's, an era marked by high inflation. We think it is unlikely that the U.S. Federal Reserve has the ability to raise rates much to stem inflation, even though recent comments made by the Chair sound otherwise. Long before the Covid-19 related downturn, economic expansion had been built on cheap money. To reverse this would likely result in a sharp decline in asset prices, in our opinion.

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