

Saturna's Fund Investment Process and Philosophy

Core Principle: Long-Term Investing



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The Power of Patience

In our previous discussion, we explored how investing in companies with low debt levels provides a robust foundation for portfolio resilience. Today, we turn our attention to the second pillar of our investment philosophy. That is, long-term investing and how we think about investment time horizons in a fundamentally different way than most market participants.

The benefits of long-term investing are well documented – reduced transaction costs, lower tax liabilities, and harnessing the full power of compounding returns. These advantages are important, and we acknowledge them. However, they are concepts that have already been discussed extensively in investment literature. We explore something deeper: how the structure of your investment time horizon fundamentally shapes the opportunity set available to you, and how this framework has become central to our ability to identify exceptional investments that others often overlook.

Building From a Foundation of Durability

Before diving into how we think about time horizons, it's important to understand the types of companies that warrant a long-term commitment. Our opportunity set begins with a specific profile that includes highly profitable businesses with strong balance sheets, healthy cash flows, and recession-resilient business models.

Key Takeaways

- 1 Long-term investing only works if you start with **durable, low-debt, cash-generative businesses** that can survive shocks.
- 2 Extending your horizon beyond the usual three to five years lets you invest **in multi-year transformations** that most investors avoid or sell too early.
- 3 **Volatility is mostly temporary.** The main risk is permanent loss of capital, which long horizons help mitigate by letting compounding work through downturns.

The rationale is straightforward but critical. No matter how rigorous your fundamental analysis or how comprehensive your due diligence, outlier events occur that are impossible to predict. Consider a scenario where a shock in the supply chain cuts off access to a commonly available industrial gas, and through no fault of the company, the entire factory needs to shut down for an extended period. Or, perhaps it's something more idiosyncratic such as a regulatory change in an adjacent market, an unexpected technology disruption, or a key executive departure at the worst possible moment.

It's not a matter of if but when such outlier events eventually impact your holdings. During these moments, your business needs the durability and soundness to weather the storm and emerge intact. To borrow an analogy, investing in financially fragile companies, regardless of their growth potential, is like picking up dollar bills in front of a steamroller. Most of the time you're probably fine, collecting steady returns. But, what happens when your foot gets stuck? What if you have a panic attack? You simply don't want to be caught in that situation.

The Constraint of Conventional Time Horizons

In practice, most strategies that call themselves “long-term” operate with an implicit three-year, perhaps up to a five-year horizon. This is often driven not by the nature of the underlying businesses but by institutional factors including performance reporting cycles, consultant expectations, and career risk for managers. In reality, the average turnover for active equity management universe as defined by Morningstar is much higher: 51% for US Large Cap Growth, 49% for US Large Blend, and 58% for Diversified Emerging Markets.

If a thesis does not play out within that window, the position is frequently rotated into something else, regardless of whether the underlying economics are still intact. Companies undertaking multi-year transformations such as major capacity expansions, supply-chain relocations, or platform rebuilds can look unattractive in a three-year framework, because the investment phase depresses margins and near-term earnings.

Yet, those same companies may be creating the foundation for a decade of improved competitiveness

and cash generation, provided they are starting from a place of balance-sheet strength and operational resilience. When a manager is free to underwrite a six-year, seven-year, or even longer-term trajectory, the apparent “dip” in near-term metrics can instead be viewed as a rational, value-creating reinvestment period.

Dynamic Investment Time Horizons

This is where our approach diverges meaningfully from industry norms. Rather than forcing every idea through a pre-set investment horizon lens, we allow the economics of the opportunity and the durability of the business to dictate the appropriate timeframe.

If evidence supports a seven-year or longer runway of value creation – and the balance sheet suggests the company can comfortably survive adverse scenarios over that period – we are willing to evaluate and own it on that basis. These are often the very opportunities that traditional value or growth frameworks screen out, not because they are unattractive, but because their payoff profile does not fit the prevailing investment horizon.

The key link is that dynamic horizons are possible only because the starting point is durability and low debt. Without that foundation, a longer horizon simply magnifies exposure to solvency risk and refinancing cycles, turning patience from an asset into a liability.



Distinguishing Volatility From Permanent Loss

Statistically, the longer an investor stays in the market, the higher the probability of realizing a positive outcome. Daily and monthly returns can look chaotic, but when you extend the horizon to ten years or more, the distribution of equity market outcomes historically becomes heavily skewed toward positive real returns. This does not mean risk disappears. Severe drawdowns and long recoveries can and do happen. What changes is that time becomes an ally rather than an enemy for patient investors, allowing compounding to work through downturns and giving businesses room to respond, adapt, and grow their way out of temporary setbacks.

However, the statistical advantage of time only materializes if the underlying holdings are capable of surviving the journey. A levered business facing a recession or funding freeze experiences volatility very differently from a conservatively financed peer, even if their revenue lines look similar.

This distinction is critical. A long-term framework recasts volatility as a cost of admission rather than a sign of failure. Short-term price swings, earnings disappointments, and sentiment shifts become relevant only to the extent that they indicate permanent impairment to the thesis, not because they create discomfort in a quarterly report.

Portfolio construction around durable companies enable this crucial distinction between mark-to-market noise and genuine erosion of intrinsic value. If a company with a fortress balance sheet and strong competitive position misses a quarter due to temporary factors, a long-horizon investor can often use the volatility to add at better prices rather than exit in panic. In contrast, an investor relying on short holding periods and thin margins of safety may have no choice but to sell into weakness, turning temporary volatility into realized, permanent loss. The danger is not the small bump in the road but the moment when liquidity or leverage forces you to act at precisely the wrong time.

Offense and Defense at the Same Time

Adopting long horizons grounded in durability does not mean hiding in purely defensive sectors. Saturna's



opportunity set includes businesses with meaningful growth optionality such as exposure to innovation, structural shifts in consumption, digitization, or emerging market development so long as they are built on sound financial footing.

Internationally, for example, many companies linked to secular themes such as automation, energy transition, or cloud infrastructure trade at valuations that assume a short window of relevance, despite strong balance sheets and long-term demand drivers. A dynamic horizon allows us to separate cyclical headwinds from structural opportunity, taking a more offensive posture while still preserving a defensive core through low leverage and robust cash generation.

The combination of offense and defense is what makes long-term investing practical rather than theoretical. The portfolio aims to participate in growth while remaining structurally prepared for shocks that inevitably arise. That duality – participation without fragility – is difficult to achieve if your strategy depends on frequent trading or on businesses that must constantly refinance to survive.

Time is a Competitive Advantage

At Saturna, we view patience not as simply a temperament trait, but as a designed feature of the investment process. By starting with resilient, low-debt companies, we reduce the probability that an outlier event forces us into a value-destructive decision. This foundation allows us to commit to longer, more realistic horizons for value realization.

Dynamic investment time horizons complete the picture. Instead of asking every idea to conform to a three-year script, we let business quality, reinvestment opportunity, and balance-sheet strength determine how long we are prepared to stay the course. Over

time, this approach seeks to deliver smoother, more reliable risk-adjusted returns. The goal is not to avoid volatility altogether but to ensure that volatility is borne by companies built to endure it.

The power of patience is less about doing nothing and more about doing the foundational work that makes staying the course during turbulent periods the rational, value-maximizing choice. This second tenet of long-term investing stands firmly on the shoulders of the first (low-debt investing) and sets the stage for the third: a dedicated focus on high-quality businesses that can compound value across full market cycles.

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