KORNFIELD
INVESTMENT MANAGEMENT
Registered Investment Adviser
Division of Kevin Hart Kornfield & Co. Inc.
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Dear Clients,

We would like to share with you some information about how we conduct research while managing your investment accounts. Our primary objective is to find clean companies that are reasonably expected to maintain good financial condition while (eventually) bringing in profitable sales that produce excess cash after paying expenses.

Report from August 26, 2022 edition of Value Line Supplementary Reports:

GSK PLC

"Shares of GSK were down sharply in recent trading, as were shares of fellow drugmakers Haleon (HLN), Pfizer (PFE) and Sanofi (SNY). The reason for the declines was because in 2019, GSK pulled *Zantac* from the market place (ed. does anyone remember that?) when the FDA became concerned that the antacid drug had an element in it called MDNA that caused cancer when heat activated. GSK owns 68% of HLN, and PFE owns the other 32%. HLN is a consumer healthcare company spun off by GSK this year. Sanofi has helped market *Zantac* in the past. Readers are probably wondering why it wasn't until now that the stocks of these companies dropped on this news. That's because even though this information was publicly available, it was heavily buried in subsequent corporate prospectuses. It wasn't until a few weeks ago that someone discovered the news on page 292 of Haleon's last prospectus. And it wasn't until August 11 that this news was widely disseminated."

A look at these companies' recent price charts will bear out this story—GSK and HLN fell dramatically around and after August 11. Although we have not introduced any of these 3 stocks into our active management accounts, we found this report illustrative on a number of levels.

One, it questions the popular notion that the markets are "perfectly efficient" because news is released and distributed so widely and so rapidly in our electronic world that all news is priced into company stocks in real time. Here is a prime example of why that assumption is not always true. There was a lag as long as two years between the initial public disclosure on *Zantac* and widespread investor reaction. Second, the story reinforces one of our pet phrases that "the USA has excellent disclosure requirements, but you have to dig around to find that nugget of important information." In this case, the disclosures were there for the reading, in the small print on page 292.

This scenario also provides us an example of why we spend so much time doing primary research on companies, including reading through prospectuses, annual and quarterly reports, interviewing corporate CFOs and investor relations officers, etc., to find what might be lurking in the back pages and beneath the headlines.

We may not pick every investment perfectly, and we have our share of hits and misses. But we take rigorous measures to inspect where problems might arise and to avoid those situations. In our general securities accounts, we do not delegate this responsibility to outside money managers and rely on their word. We do our own extensive and ongoing due diligence, and like a new home buyer, we only buy after the thorough inspection proves satisfactory.

Thank you for your trust and confidence.

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