Long term fundamental, absolute value investing is our credo

Fund Objective

The Fund seeks to provide above average capital appreciation over the long-term while attempting to minimize the risk of capital loss.

Executive Summary

The Fund employs a research-driven, long-term fundamental value investment philosophy.

We conduct our own extensive proprietary research, and look to invest in well-run, financially strong, high-quality companies whose stocks we can purchase at a significant discount to their intrinsic values.

We invest as owners with a long-term view of businesses. However, what dictates a holding period is the time that it takes for the discount to unwind. This typically translates into 3 to 5 years.

The “V.A.L.U.E.” Investment Philosophy

Given our focus on value, the philosophy is be described using the five letters of the word:

- V. for Value – At the heart of what we do is the seemingly simple imperative of finding value, that is to say buying businesses for less than what we believe their intrinsic value to be. For us, value is one thing and one thing only. It doesn’t mean that we are buying stocks at a low multiple of last year’s profits, or a high cash flow yield. It isn’t based either on historical trading multiples, or how the market has historically been willing to price the business. And it isn’t based on precedent transactions, or what trade and financial buyers may have been willing to pay for the business at a given time under specific financial conditions (like access to cheap debt financing). Rather, it is the sum of long-term cash flows that the business will generate discounted back to present time. In turn, that means the discount at purchase could come from many different sources. Examples include: cyclical pressure or business disruptions; misunderstood fundamentals; structural shifts affecting the industry, the market, or the business; management or corporate governance changes; corporate actions such as restructurings or transformations in the scope of activity, and business development opportunities that reach beyond the typical market horizon of 1 to 2 years into the future.

- A for Absolute – We are absolute value investors. That is to say, we seek genuine bargains rather than relatively attractive ones. Unlike many long-only investment managers, our starting point is not a fully invested portfolio or a set benchmark. Our starting position is cash. And we are only interested in making an investment and putting capital at risk when we think we can gain exposure to an asymmetric outcome. We will only convert our cash into a partial ownership of a business if we are convinced we are buying a stake at a significant discount to its intrinsic value, and when we believe the risk of potential losses is limited.

- L. for Long-term (and often contrarian) – With capital markets generally short-term minded and susceptible to herd-like behavior, we find that our investment goals are best achieved by taking a long-term and often contrarian approach. We consider ourselves owners of businesses. A successful business owner would not care about what happens in the coming quarter, and neither do we. While in principle we would be happy to be invested in perpetuity under the right conditions, our holding period will be dictated by how long it takes for the discount to unwind. In practice, however, we find that a 3 to 5 year is a reasonable holding period expectation going into a new investment. Based on past experience, it seems to be the amount of time it takes for the market to understand the value of what we own.

- U. for Unconstrained – We recognize that value opportunities (notwithstanding our stringent selection criteria) are difficult to find. We need a robust process to unearth these opportunities, but we also need to take as broad a view of the market as possible in order to maximize our chances of finding these businesses that for a reason or another are temporarily available for purchase at a discount to their intrinsic value. And we need to be able to take advantage of every opportunity without arbitrarily set institutional constraints. Because of this, we consider as broad an investment universe as possible, and we invest across market capitalization sizes, industries, and geographies.

- E. for Educated – Last but not least, we want to invest in businesses that we believe are high quality and thus well-suited for our long-term focus. To identify these businesses, we take a fundamental, bottom-up, research-driven approach. We talk to many industry participants to educate ourselves on the business and understand it better than anyone one else in the market. We then select and value companies based on their fundamentals including underlying business dynamics, management capabilities, long-term economics and overall financial strength.

The “F.A.C.T.” Selection Discipline

For us to invest, we need to believe that we have established some reliable truths about the opportunity through our research and data gathering effort first, and later through our analytical and valuation work.

We insist that our companies meet the following four quality selection criteria, which we call the ‘**F.A.C.T**.”s of the investment case:

- **F. for Fundamentals of the business** – We look for what we call high-quality businesses that have sustainable, superior fundamentals giving them long-term staying power and the capacity to build value over time. These include compelling products or services that customers need and are willing to pay for, high barriers to entry limiting new entrants, low threat of substitution, a favorably structured and fairly rationale market place, sustainable competitive advantages or differentiating factors, power over customers as well as suppliers, and ultimately, pricing power. We typically eschew companies whose markets or business models are in secular decline. We expect strong fundamentals will allow the business to expand its addressable markets, as well as the share of that market it can capture. We believe that such businesses can be expected to sustainably generate industry leading margins, realize high levels of cash flows, and earn attractive (likely growing) returns on capital.

- **A. for Agency reliability** – When invested, we view ourselves as principals of the business, and we need its agents, the executive management team and the board of directors, to deliver the strategy and performance we believe is appropriate for the business. We look for high-quality managers, that is to say shareholder-aligned management teams that we believe not only can run operations well, and possibly have proven to be able to do so through difficult times, but also can be good stewards of capital and display sound financial discipline. We would expect them to make appropriate investment decisions by comparing the relative returns of various opportunities and, in the absence of attractive options, consider returning capital to shareholders through dividends and/or share repurchases. We believe such an approach will create value over time. Frequently and preferably these managers are shareholders themselves. When they are not, we want them to think and act as owners and to be compensated based as such, that is to say on their ability to build intrinsic value per share over the long-term.

- **C. for Capital stability** – We do not believe that well-run, high-quality businesses have much need for financial leverage. The strong underlying returns of the business further enhanced by positive management actions should more than suffice to deliver superior returns on equity to shareholders. We look for high-quality balance sheets with limited amounts of financial gearing, a conservatively managed debt structure, and good cash flow profiles. Our view is that financial robustness enhances a business' ability to weather temporary disruptions or adverse economic circumstances, and puts it in a position to consistently gain strength through difficult times. Value destruction, on the other hand, is often the result of excessive leverage, particularly when combined with unforeseen events.

- **T. for Trading discount** – Lastly, we look for what we would define as high-quality prices, meaning low absolute valuations. We want to invest in a company when its stock trades at a significant discount to our estimate of intrinsic value, or said otherwise, with a significant margin of safety. This is how we expect to achieve excess returns in the long run. We recognize that we cannot always be right in our assessment of value and demand a discount before investing. Buying into quality businesses that build value over time, coupled with a high margin of safety, helps mitigate the potential negative impact of unforeseen factors and allows the passage of time to work in our favor.

Process: our investment "funnel"

In looking for such companies, our process is akin to that of a Research & Development process. We need to come up with creative, highly differentiated fundamental ideas, and quickly identify those than can be converted into commercially viable propositions, or in our case, are actionable ideas that can become actual investments.

Like any research department, we use a "**funnel**" to do this that relies on a few steps and core inputs. The key tenets of this process are as follows.

Necessary conditions

In analyzing companies, we take a bottom-up, research-driven approach. We eschew businesses that do not lend themselves to appraisal. We limit ourselves to countries with established rules of law and political systems that allow for transparent and unbiased enforcement of those laws. We are also cognizant of macro-economic factors but center our analyses around, and select stocks based on the fundamentals of the underlying businesses. To understand these fundamentals, we engage in extensive research.

Proprietary research

We dedicate a lot of time traveling to visit investment prospects and meet with management teams or key employees to discuss operations, strategy, and capital allocation. We interview competitors, suppliers, customers, and other relevant third parties. We study how industries and companies evolve over time and how adept management is at responding to and taking advantage of changes in the business. We think prospectively rather than looking only at the past to anticipate potential changes. Our research is an ongoing process, and ultimately the companies we typically invest in are the ones we have followed for years, and have seen perform through good and bad times.

Through these research efforts, we have identified hundreds of businesses around the world over the years that we would like to own. These firms form our coverage universe. We consistently monitor these companies while patiently awaiting opportunities to purchase their stocks at a significant discount. Rotating capital among companies on our list has been one of the hallmarks of our approach.

Other companies we have come across with at least one redeeming quality (it could the business alone or a piece of the business, management, or some industry dynamics) typically belong to our focus list. While we are not ready to purchase their stocks as it stands, we remain on the lookout for any development that could turn them into suitable opportunities for our investment strategy.

Filings and publications

We also study a long history of annual reports, investor presentations, conference call transcripts, third party research and other relevant publicly available materials for each targeted company, as well as the other industry participants. Through this process, we seek to obtain an understanding of the value chain, market forces, and strategic dynamics. We use our research findings and analytical work to assess the normal economics of the business, and to estimate the present value of its future stream of cash flows.

Financial analysis

We study the company's economics, its overall financial position, and how its balance sheet would hold up in challenging conditions. We try to assess what the through-cycle, normalized (sustainable) economics of the business should be, and what a reasonable path to normality might look like. We also look at leverage, debt structure, and cash flow generation profile. We spend a lot of time asking ourselves what could go wrong and, if something did, what it might mean for the business and its value. To the extent possible, we make an assessment of that through our research. We then price the stock with those concerns in mind, rather than making arbitrary allocations between alternative scenarios. If we cannot price the business, we do not invest.

Portfolio Management

Concentrated approach

Given our stringent criteria, we need to look broadly across capitalizations, industries, and geographies to find suitable opportunities. While there are thousands of listed corporations, only a few combine all of our investment requirements at a given time, which leads us to run a more concentrated portfolio.

Concentration allows us, in turn, to spend a disproportionate amount of time getting to know the most attractive companies, helping to reduce the risk of mistake which might otherwise lead to capital loss.

Lastly, we expect that focusing on our best ideas with the most attractive discounts will allow us to pursue superior performance over time. We expect to be typically invested in a limited number of stocks as a result.

Portfolio construction

Portfolio construction is the product of that research and valuation process. We only add the companies that meet our qualitative investment criteria and offer enough margin of safety to the list of portfolio investments. We then allocate individual portfolio weightings according to the relative discount to our estimate of intrinsic value. This approach allows our ideas with the greatest upside to have a more significant impact on performance.

We continuously monitor each portfolio company to ensure that the original thesis remains intact and that the intrinsic value advantage remains. We may sell a holding when its market price appreciates and approaches our estimate of value; when we find opportunities to reallocate capital to other investments with greater reward potential; or when the original investment thesis no longer holds. While a painful decision, it is preferable in our view to take our losses early rather than simply hoping for a better outcome and increasing exposure as value deteriorates, thus further expanding the possibility of even greater capital impairment.

Risk Framework

We do not think of risk as the historical volatility of a stock, either on an absolute basis or relative to a chosen benchmark over an arbitrary period of time. Rather, we believe that short-term volatility in price is what creates opportunity. We will "lean into" it to take advantage of attractive valuations and seek to generate superior returns over time.

We define risk more fundamentally, starting with exposure to a given business, as the possibility of permanent loss, combined with the magnitude of the possible permanent loss. By permanent loss, we mean a reduction in our estimate of the intrinsic value of the business in excess of the margin of safety or discount that we believed the stock provided when we made the original purchase.

It is important to understand that our entire approach (both our philosophy and our process) is downside-focused and inherently defensive in nature:

- **Stringent selection criteria** – We use stringent selection criteria that lead us to only invest in high-quality companies with underlying fundamentals that give the business staying power. We expect these characteristics will allow them to weather difficult times. It will position them well to benefit from market dislocations and gain strength through cycles.

  We eschew companies with high levels of financial leverage to focus on businesses with strong cash flow generation profiles and robust balance sheets. We expect their position of financial strength will allow them to withstand temporary disruptions and give them the resources to redeploy capital opportunistically to further enhance their positioning.

  We want these companies to be in the care of management teams that have proven they can run the business well operationally, possibly through cycles and periods of disruption. We also want them to be able to consistently deploy capital in way that can be value accretive over time, to avoid value trap situations that could result in capital losses.

- **Rigorous process** – We follow a rigorous process whereby, in order to assess whether a prospective investment meets these selection criteria, we conduct our own extensive fundamental research and analytical work from which we derive our estimate of the intrinsic value of the business. We carefully weight existing challenges in the business, and identify potential sources of downside risks as part of our underwriting effort.

  We continuously monitor companies in our coverage universe and our portfolio holdings. We look for potential fundamental changes that challenge or modify our original assessment of the business and our estimate of its intrinsic value. If we determine that the original investment thesis no longer holds, we will divest the business.

- **Strong investment discipline** – We take a long-term, value-driven approach whereby we focus on businesses that we expect can outlive us and we only buy them at what we believe is a significant discount to intrinsic value to protect against any potential unexpected impairments and capture any residual (if not all) upside over time. And we focus on our best ideas to further minimize the risk of disappointments or capital losses.

Because our investment approach is built entirely with a focus on risk avoidance and minimization, we do not incorporate any institutional risk management restrictions based on quantitative measurements or arbitrary set guidelines into our process. We want to remain true to our philosophy at all times and in all market conditions and thus, do not allow arbitrarily set criteria to interfere with investment decisions.

However, we remain mindful of the portfolio output of our bottom-up selection process in terms of individual position size, as well as sector, geography, or currency exposure. We not only consider GICS-type classification systems, but also more fundamentally, the underlying industry exposure of a business and where its cash flows are ultimately generated. We use internal guidelines as red flags around maximum percentages of exposure. We also consider our combined share of ownership in any given company, and continuously monitor the overall liquidity profile of the funds.

Conclusion

In conclusion, our approach is to concentrate on a relatively small portfolio of well thought-out and researched positions. We want to be long-term owners of high-quality, financially sound businesses that are run by proven managers who build value over time for shareholders. We invest in these businesses only when we can buy their stocks at what we believe to be absolutely low prices.

We adopted this approach because that is the only one that makes sense to us and because that is how we want to manage our own money. We invested a significant portion of our net worth in the strategies and funds that we manage. Should our portfolios lag, we will feel the pain along with our fellow shareholders. At times we expect to experience poor relative performance in the short run, but we are confident that as patient, long-term investors we should ultimately be rewarded.

Risk considerations:

Investments, including investments in mutual funds, carry risks and investors may lose principal value. Capital markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. The Fund may purchase foreign securities, including American Depository Receipts (ADRs) and other depository receipts, which are subject to interest rate, currency exchange rate, economic and political risks. Foreign investments, especially those of companies in emerging markets, can be riskier, less liquid, harder to value, and more volatile than investments in the United States. Adverse political and economic developments or changes in the value of foreign currency can make it more difficult for the Fund to value the securities. Differences in tax and accounting standards, difficulties in obtaining information about foreign companies, restrictions on receiving investment proceeds from a foreign country, confiscatory foreign tax laws, and potential difficulties in enforcing contractual obligations, can all add to the risk and volatility of foreign investments. Small and mid cap stocks involve greater risks and they can fluctuate in price more than larger company stocks. Groups of stocks, such as value and growth, go in and out of favor, which may cause certain funds to underperform other equity funds. The Fund may invest a greater percentage of its assets in a smaller number of securities. Holding fewer securities increases the risk that the value of the Fund could go down because of the poor performance of a single investment. Value style investing presents the risk that the holdings or securities may never reach their full market value because the market fails to recognize what the portfolio management team considers the true business value or because the portfolio management team has misjudged those values. In addition, value style investing may fall out of favor and underperform growth or other styles of investing during given periods. The portfolio holdings as of the most recent quarter-end may be obtained at www.phaeacianpartners.com. Please refer to the Fund's Prospectus for a complete overview of the primary risks associated with the Fund. Portfolio composition will change due to ongoing management of the Fund. References to individual securities are for informational purposes only and should not be construed as recommendations by the Fund, the portfolio manager, the Adviser, or the distributor. It should not be assumed that future investments will be profitable or will equal the performance of the security examples discussed. The portfolio holdings as of the most recent quarter-end may be obtained at www.phaeacianpartners.com.