Objective:

The Blue Tower Global Value strategy endeavors to provide above average capital appreciation over the long term while attempting to minimize the risk of a permanent impairment of capital. We will be almost fully invested in the market the vast majority of the time, but may temporarily hold cash positions.

Philosophy

Long-term focus. We believe the best way to accomplish our goals is to accept short-term underperformance in exchange for long-term success.

Bottom-up: We select and value individual stocks based on the fundamentals of the underlying businesses. We seek investments that meet the following criteria:

1. High quality businesses with long-term staying power and economic moats.
2. Overall financial strength and ability to weather market dislocations.
3. Attractive forward rates of free cash flow
4. Management teams that allocate capital in a manner which creates shareholder value.

Broad investment universe: We invest across all market caps, industries, and geographies.

Concentration: We focus only on our best ideas and expect to be invested in no more than 15-25 stocks.

Research-driven: Prior to making investments, we engage into an extensive research process. This process includes the use of Blue Tower's advanced algorithms which scour databases of financial information to create short lists of potentially good investments. These companies are then further investigated by analysts. Portfolio construction is the product of that process with the most attractive names accounting for the greatest weightings and with an aim for the risks to the intrinsic value of the underlying businesses to be uncorrelated.

Downside focus: We aim for a process that is inherently risk-averse. First, we limit ourselves to companies with strong balance sheets. Second, we spend a lot of time understanding the operational risk profile of the businesses in which we invest. If we cannot get comfortable with the long-term economics of a business, we do not invest. Lastly, we only buy stock when it trades at a significant discount to our estimate of intrinsic value.

Investment Objective and Strategy

The Blue Tower Global Value strategy seeks to generate attractive forward rates of return, while minimizing the risk of a permanent loss of capital. Risk is inherently an imprecise word whose definition varies from one individual to another. We believe there is a difference between short-term volatility and long-term risk to our client's capital. The source of risk is the inherent uncertainty that exists in the world and that there are many things that can happen which may not happen. We define long term as five to seven years.

We view risks on a portfolio basis and are willing to accept significant risks in individual positions if the potential returns from the position returns have sufficient upside. We take a qualitative view of the potential risks to individual positions and see if these risks are correlated to the rest of the portfolio.

Philosophy

We are value investors.

We view ourselves as the guardians of the capital entrusted to us. We manage the various investment products in the Global Value strategy, in a way that makes us comfortable having our family and friends commit their savings to it.

We view ourselves as pragmatists with a healthy respect for what we do not know. We are neither optimists nor pessimists, as we invariably find ourselves hoping for the best, while preparing for the worst.

Focus on Capital Intensity: We believe that the degree to which a company requires maintenance capital expenditure is a critical component of investment returns. A company that does not require capital expenditures to maintain the business has the ability to return capital to investors as dividend or stock buybacks. Additionally, the ability of a company to reinvest capital at high rates of return gives a value opportunity for the growth of investor capital.

Unconstrained Mandate: Our strategy is unusual among equity strategies in that we have a mandate to invest in any sector, country, or market capitalization. This freedom to go anywhere without the requirement to do so grants us a larger opportunity set and a greater probability of finding companies that are trading at high forward rates of return. Our clients' support and understanding of our investment process gives us this ability to invest without regard to traditional style boxes.

Long-term Focus: In order to achieve excellence over the long-term, we must be willing to accept underperformance during the short-term. Over a sufficiently long-time such as a 5 to 7 year market cycle, we have confidence in our ability to compound wealth. Within those market cycles, there may be temporary irrational market sentiments outside of our control which cause volatility in the value of our holdings or underperformance relative to market indices. Our confidence in our fundamental research and our familiarity with the companies in which we invest allows us to weather these periods without concern.

In the same way that our education of our investments allows us to be patient with our holdings, we believe that the education of our clients in our investment process allows them to be patient with our strategy. We believe you should only invest with a manager whose philosophy and process you understand. Otherwise, you could find yourself unable to stomach what will certainly be more challenging periods.

Process

Search for Bargains: Market sentiment fluctuates wildly and investors who can remain rational and treasure hunt through the volatility of the market to find bargains are at a great advantage. When trying to find cheap stocks, it is not sufficient to just look at P/E ratio. One needs to take into account the capital structure by looking at the earnings relative to the enterprise value and adjusting for leverage. Some companies are in financial distress and should usually be avoided. We want to invest in companies that have enough freedom in their balance sheet to be able to adapt to and survive market dislocations.

Stocks can be at a bargain for a variety reasons. Some have a significant risk that the market has become aware of and have become over-discounted. People tend to be irrationally risk adverse to low probability, high magnitude losses and irrationally risk seeking towards low probability, high magnitude gains. We find that these "ugly ducklings" can often be rewarding value opportunities if our analysis indicates that the real risk is far less than what the market has priced into the stock. Another cause of bargains are if a company is simply too boring and with limited upside to catch the attention of most investors. Some examples of this are many of the blue-chip consumer defensive stocks and tobacco companies over the last twenty years which have given total returns to investors far above market returns with less risk. A third cause of bargains can be if companies are too small and obscure to attract the attention of the market. Many of these companies lack sell-side analyst coverage and large institutional investors will ignore researching them as they are too small to move the needle for their funds. As a firm with a small capital base, we have an advantage in being able to take advantage of these opportunities.

Demand a High Return on Capital: In addition to being cheap, we want to invest in companies that are able to have a large return on invested capital. This is attractive for two reasons. First if a company can reinvest at high rates of return, the investors in that company are essentially buying an option to reinvest money at a high rate of return. Secondly, companies that are able to operate and grow without the need for large maintenance capital expenditures have more money that they can return to shareholders through the use of dividends or buybacks or expand the business through reinvestment or acquisitions. For companies that have a history of growing their business through the regular use of acquisitions in addition to the use of capital expenditures, we will modify our measurements of free cash flows to subtract the acquisition costs. We justify this as these companies are essentially using acquisitions as a replacement for internal capital expenditures.

Balance Sheet: There are some value investors who often will take positions in a company based on the value of their balance sheets. They are often activist investors who seek to unlock the hidden value of real estate holdings or other assets. We do not practice this style of investing, and instead we view the balance sheet with an eye of trying to find sources of hidden risk that may cause us to eliminate the company from consideration. Some of these hidden items could be pension obligations that are badly underfunded, off-balance sheet liabilities, or overly dilutive employee compensation.

Pricing Power: One of the beauties of capitalism is that the constant competition of companies tends to increase efficiencies and decrease costs as companies are pushed towards being unable to make more than their cost of capital. However, many businesses are able to make more than a normal profit due to the industry structure in the lines of business of which they are operating. We find that Porter's Five Forces are an effective framework from which to analyze these situations and determine the sources of the barriers to entry and pricing power. The five forces in the framework are bargaining power of customers, bargaining power of suppliers, threat of new entrants, threat of substitutes, and competitive rivalry within the industry. These five forces can act to decrease the profits of a company to a normal profit.

Management: Evaluating the management of a company is an important part of the qualitative portion of the research process that we use for determining investment quality. We want to invest in companies with highly motivated management who are of the highest integrity and put shareholder interests at the forefront. Management should be a good steward of the capital of the business. We first determine where management is using investor capital. A company's management has four options when it comes to allocating capital: 1. Reinvest in the Business 2. Make acquisitions 3. Return capital to investors through share repurchase or paying dividends 4. Build up cash reserves/Pay down debt. Once we have determined where capital is being spent, we can evaluate the wisdom of these decisions.

Summary: We are value investors, because value investing is a process that fits our intellectual honesty, is robust in its ability to function in many different environments, and provides excellent returns over the long-term. We believe strongly in our strategy and invest our own money into these stocks along with many of our family and friends.