
Askeladden Capital
January 2017

Important Disclaimer

DISCLAIMER: Data is estimated, unaudited, and provided for directional color only. Past performance is not a predictor of future results. We do not expect our future annualized returns to approximate our historical annualized returns due to factors including: worse luck, a larger asset base, elevated equity market valuations, fewer investment candidates that meet our qualitative and quantitative underwriting criteria, smaller position size limits than were in place during Askeladden's first year, and other miscellaneous items. Please consult your monthly statements from Fund Associates LLC for actual returns. For "Since Inception" numbers, Index performance is rounded to the nearest whole percentage point; ACP performance is rounded to the next lowest full percentage point. For YTD numbers, both are rounded to the nearest whole percentage point. Decimal points have been excluded so as not to convey a level of precision that these estimates are not intended to convey. Net returns are calculated assuming a hypothetical investor paid the standard fee structure of a 1.5% annual management fee and 30% of the outperformance, if any, vs. the S&P 1000 Total Return index, which was chosen because it has historically outperformed the Russell 2000 and most accurately represents our typical investment universe of small and mid-capitalization U.S. equities (i.e., those with a market cap of $10 billion or less). Individual investors' returns may differ from those presented here due to their date of entry into the fund or their specific fee structure (for example, accredited but non-qualified clients may not, by law, be charged a performance allocation, so they are typically charged a higher, flat management fee). Annualized/cumulative returns are calculated assuming an investor joined on the date of inception; YTD returns are calculated assuming an investor joined on January 1, 2017. Results are presented only for Askeladden Capital Partners LP and not for any of the separately managed accounts which Askeladden Capital Management LLC (the investment advisor to Askeladden Capital Partners LP) also oversees. While separately managed accouts are generally allocated very similarly to the fund, SMA clients' performance may differ based on factors such as: timing of account opening, tax considerations, specific client instructions, and manager discretion; therefore, SMA clients should consult their Interactive Brokers statements for specific performance information for their account. This is not an offering of securities or solicitation thereof; any offering of securities would only be made to accredited investors via a Private Placement Memorandum under Rule 506(c) of Regulation D, and any prospective partners who did not have a pre-existing relationship with Askeladden as of 1/18/2017 would be required to verify their accredited status with relevant documentation. This requirement does not apply to separately managed accounts. As Askeladden Capital Partners decided to rely on 506(c) rather than 506(b) as of 1/18/2017, any documents prepared prior to that date were not intended for public distribution and should be read accordingly. Askeladden Capital Partners, and SMAs that mirror its strategy, should be considered high-risk investments suitable for only a small portion of an investor's overall portfolio, as they involve the risk of loss, including total loss. Specific risk factors are enumerated in our Form ADV.

This ain’t a pitchbook.

- I’m an investor, not an asset gatherer.
- To generate differentiated returns, you need to invest differently; ironically, that often means being “uninvestable.”
- Askeladden is a fund for independent thinkers, outsiders, and nonconformists.

Process matters.

- Over 15 years, Mensa's investment club underperformed the market by 13 percent annually. Clearly investment returns aren't a function of IQ…

- SEAL Team Six isn't about physical talent – it's comprised of those who want it the most and have internalized the mantra of adaptive learning.

- *"Colbert delivered a soliloquy on the necessity of focus and intention, being fully present for whatever moment you are in. He was talking about comedy, and how to make a TV show 200 times a year, but it also felt like a text lifted from the Buddha's sutras. The final goal, the product, is beside the point. "The end product is jokes, but you could easily say the end product is intention. Having intentionality at all times… The process of process is process."*

Before process comes objectives.

- The majority of investors optimize for maximizing AUM rather than LP returns.
- <u>We optimize for LP returns rather than AUM.</u> This is a lifestyle business; I intend to close the fund to new investors at $50MM in FPAUM.
- My objective is to create rather than extract value.
- More on why I'm doing this later. (First, the process.)

What’s our process? (1)

- There are no points for difficulty in investing.

- *“We have this investment discipline of waiting for a fat pitch. If I was offered the chance to go into business where people would measure me against [quarterly] benchmarks… I would hate it. I would regard it as putting me into shackles.”*

  \- Charlie Munger

- We wait for easy pitches. When we find one, we swing.

What's our process? (2)

- Earth-moving primary research and gaining an "analytical edge" are overrated. It sounds nice in a pitchbook, but doesn't demonstrably lead to outperformance.
- Making good decisions is very, very underrated.
- Therefore, we focus on making good decisions rather than perpetually seeking incremental data points (and missing the forest for the trees.)
- We are patient, selective, cautious, curious, emotionally self-aware, conscious of our (and others') behavioral biases, and epistemologically humble.
- We focus (a lot) on thinking about what is really knowable and predictable vs. what is not. We don't attempt to predict fundamentally unpredictable things.

What's our process? (3)

- We follow decent-to-high-quality small-cap companies over time, building a nuanced understanding of the key risks and drivers of value.
- We invest when we believe a stock is priced to deliver 20% compounded annual returns over a ~3-year investment horizon with limited risk of downside or "dead money." We want a high hit rate and will view any investment that returns <10% annualized over our investment horizon as a mistake to learn from.
- We focus on clean balance sheets, strong products and industry dynamics, good management, and other "quality" factors.
- We often conduct extensive research, but believe our edge is behavioral, not analytical. <u>Thinking you know everything is dangerous.</u>
- We learn from our mistakes.

We build mental models.

- We believe being multidisciplinary is very important – trying to be a value investor by only reading 10-Ks and the Journal is like trying to be an executive who only reads memos from direct reports.

- Having a working understanding of big concepts from science, mathematics, philosophy, history, psychology, and so on lends perspective that can help us make better decisions.

- (That's why Yale medical students visit art museums.)

- Over time, as we build our repertoire of followed companies, we hope to spend incrementally more time on mental-model building and incrementally less time on direct investment research.

... not financial models.

- Munger: *"Warren talks about these discounted cash flows. I've never seen him do one." "It's true,"* replied Buffett. *"If [the value of a company] doesn't just scream out at you, it's too close."*

- Everyone else tries to figure out valuation to the nth degree of decimal-point precision. We try to figure out the three factors that matter, and wait for a valuation that's slam-dunk obvious.

- <u>Truly compelling investment opportunities never require a 3-statement DCF.</u>

So how do you value companies?

- We focus on multiples to normalized free cash flow – reverse-engineering, per se – what is the market pricing in? Do we have a strongly divergent opinion? Do we win if not much goes right?

- We value companies on an absolute rather than relative basis – we assume a 10% equity discount rate and typically focus on EV/NOPAT rather than P/FCF to focus on high return-on-capital businesses rather than mediocre businesses benefiting from cheap debt.

- We use conservative projections and usually don't underwrite more than mid-single-digit growth. We love high single digit or double digit growth when we can get it… we're just not willing to pay up for it.

Why a 20% hurdle rate?

1. We will make analytical mistakes.

2. Bad stuff will happen.

3. We charge fees.

4. If we underwrite marginally attractive investments, after accounting for (1), (2), and (3), your investment performance will be unacceptable.

5. A high hurdle rate forces us to be patient and selective.

Isn't that overly prescriptive?

- Of course it is. There's plenty of money to be made in dead-money asset plays, highly-levered cyclicals, and so on… just not by us.
- A strategy is only as good as your ability to execute it.
- We are very confident within our narrow circle of competence, but it would be hubristic to assume we're all things to all people.
- <u>We do what we're well-suited to do. No more, no less.</u>

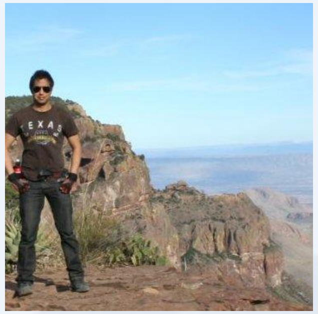
Portfolio Management

- We're unlevered*, long-only*. There's little to no alpha in shorting; L/S is a fee structure in search of a mark. A cash allocation (typically 15 - 25%) allows us to be opportunistic, but we do not attempt to time the market. We simply buy when opportunities arise, and don't when they don't.
- Target is 10 – 15 names, likely a barbell approach with <10 names making up the majority of the book. Why pay us for our 25th best idea?
- We are willing to take concentrated positions in exceptional ideas.
- We don't care about vol or Sharpe ratios. We're optimizing for one thing only: maximizing long-term returns to LPs. (Like I said, uninvestable!)
- *Technically, in theory, the docs do allow me to short, and to go up to 120% gross exposure. In practice, I don't have margin set up, have no interest in shorting in the current environment (given the negative carry and the inherent challenges of achieving profitability on the short side), and cannot envision a scenario where I would want to be at 0% cash (much less more than 100% long).

<u>Terms (negotiable)</u>

- Three-year lockup.
- 1.5% management fee (almost all expenses included.)
- 30% allocation of <u>outperformance</u>, if any, vs. the S&P 1000 Total Return index over the lockup period. The higher of fund performance or index performance is used as a high water mark for future periods.
- If index performance during the term is negative, performance allocation is only assessed on <u>positive</u> absolute performance.
- I'm totally fine with SMAs as long as it's a large enough account to make sense.
- I'm really pretty flexible about everything except my core strategy.

Who am I anyway?



- I'm Samir. I'm (nearly) 23. Things I like: camping/hiking, writing, dogs, gardening, pop-punk, hightop Chuck Taylors. (What's the point of working for yourself if you have to wear dress shoes?)

- I completed an MBA in 2014 (4.0 GPA) but didn't learn much from it - I'm a self-taught value investor.

- I spent two years as an analyst at a small-cap hedge fund, then launched Askeladden in Jan '16.

- accolades: 770 GMAT, 2013 Atlas Shrugged Essay Contest winner, top score worldwide on the Bloomberg Aptitude Test, started college at 13, that kid from the spelling bee.

- Analytical capability is just a prerequisite – process is what matters.

Why am I doing this?

- Incentives matter. I like to be transparent about why I'm running a fund.

- I'm not in it for the money. My life goal is to be a great dad. Value investing fits me:
  - It involves solving a few big problems rather than a lot of little ones (intellectually stimulating)
  - It allows me to create value for people.
  - It allows me to learn how the world works and read broadly.
  - Its productivity is disintermediated from time and location, so I can (when such time comes) be present for my family.

- I plan to close the fund to new investors at $50MM of fee-paying AUM; concentrated small-cap is a strategy that doesn't scale well. Opportunity set is as important to returns as skill set.
  - *Beyond that, the fund's progression would be more up to LPs' desires than mine (i.e., whether they would want me to begin returning capital if we compounded to a point where I could no longer allocate it effectively, or if they would prefer me to keep investing it with the understanding that scale will degrade returns.) My preference would be to return capital at around $100MM.*

Why my modest ambition is good for LPs.

- I am not doing anything particularly unique or special or proprietary or exotic; small-cap alpha is well-understood.
- The challenge is sticking around to achieve it: most managers who start out small and earn excess returns by focusing on the more inefficient segments of the market are flooded with capital and rapidly scale out of being able to take concentrated positions in the most attractively priced securities.
- Since I'm not looking to raise tons of money and I only need a handful of thoughtful LPs to meet my goals, I can afford to be patient and let my results speak for themselves - I'd much rather spend my time thinking, reading, and making good decisions than hitting the institutional-investor pitch circuit (for which I have neither the pedigree nor interest).
- I attract investors primarily via referrals and "inbound marketing" (i.e. posting whitepapers and ideas, sourcing interview and speaking opportunities, and so on).

References

- For prospective investors considering a significant investment in Askeladden, the following references have agreed to speak to my approach and character:
  - Zeke Ashton, Founder/Portfolio Manager of Centaur Capital Partners. Zeke has run a fund for 15 years with substantial cumulative outperformance vs. long-biased equity hedge funds and the S&P 500. Technically, I am an external consultant for Centaur; in practice, Zeke is a friend and mentor and we collaborate on both research and investment process. zashton@centaurcapital.com.
  - John Kane, Partner at Kane Russell Coleman & Logan PC (note: no family relation between John and the name-partner Kane). John is a Rising Star lawyer who has been a personal friend/mentor for several years and encouraged me to launch Askeladden. Ask him about my risotto. jkane@krcl.com.
  - Geoff High, Vice President of Investor Relations for DMC Global (BOOM). Geoff has worked in investor relations for two decades and I've interacted with him extensively on BOOM. He also has the most scenic commute of anyone I know, so he's always in a good mood. ghigh@dmcglobal.com.

Why “Askeladden?”

- From Wikipedia:

- “In many folk tales, the Ash Lad is looked down upon as a seemingly drowsy ne'er do well, perhaps even as a loner or misunderstood eccentric, who spends too much time sitting by the fireplace lost in thought as he is poking the ashes. As the typical story unfolds, the older brothers, tied to conventional thinking, typically fall flat on their faces. In contrast, it is the Ash Lad who comes up with creative solutions. He is smarter, more tactical, more receptive and more aware of the needs of others. He outwits trolls, dodges charging unicorns or gets a magic Viking ship to transport him where he ultimately saves the princess.”

- “In modern parlance, the Ash Lad is an individualist, free-thinker, and nonconformist who is capable of deep abstract, analytical thinking "outside the box", or who can create a scientific paradigm shift. He is capable of acting as a true visionary or innovative early adopter.”

Performance

- From inception on 1/11/2016 through 12/31/2016, Askeladden Capital Partners returned ~+69% gross and ~+56% net vs. ~+31% for the S&P 1000 Total Return (our benchmark.) Please see performance disclaimer at the beginning of the presentation.

- While we are happy with these results, we judge our near-term performance by the fundamental performance of the businesses in which we invest, rather than their near-term stock prices. If we're right in our assessment of the business, prices will take care of themselves over our 3-year horizon.

- We benefited from an extremely favorable inception date, a significant rally in equities and particularly small-caps post the election, and trading nimbleness as a function of our small size. We believe this sort of absolute and relative performance in an expensive market is unlikely to be repeated over multiple iterations of the universe. We would be thrilled to deliver mid-teens net returns over the long-term.

- We continue to be patient, curious, opportunistic, and most of all, epistemologically humble. Even on our highest-conviction ideas, we constantly ask ourselves where, how, and why we could be wrong, and what that would mean for our investment.

Questions?

- maximumeffort@askeladdencapital.com

  (I don't take unsolicited phone calls because they disrupt my workflow, but email me if you want to set up a time to chat.)

- I'm big on transparency and will answer literally anything. I'm also happy to furnish you with the previous copy of the "pitchbook" (from August 2016) if you wish to compare the two to see how my tone has evolved. (It irks me when company management pulls old decks off their IR site… I like to see what they said, and compare it to what they actually did. In my case, the main changes between the two were adding references and making some modest adjustments to language for clarity and tone.)

- Fair warning, I'm singlehandedly bringing the long email back…

- Please ask about my mistakes and what I've learned from them.