

PRESENTATION OF THE COMPANY

Founded in December 1997, Pastel & Associés is an **independent asset manager** registered with the AMF (France's securities regulator) since its inception. The company manages mutual funds and segregated accounts for institutional clients and, via external distributors, for private clients.

The portfolios managed by the company are primarily invested in stocks publicly traded in North America, UK and the Euro Zone according to an **original investment methodology** created and developed by David Pastel over more than 15 years.

The purely fundamental investment process is based on **investing, in a limited number of publicly-traded companies**, which have been selected on the basis of an in-depth, in-house analysis and assessment of their long-term economic value. The investment process is long-only and with no recourse to leverage.

The aim of the investment methodology is to secure, with the greatest possible level of confidence and for each of the companies added to the portfolio, a **superior long term compound annual return on investment**. At the same time, the methodology aims at minimizing, position by position, the risk of permanent loss of capital.

Pastel & Associés does its **own investment research**, without drawing on advice, recommendations or help from brokerage houses and investment banks. No attention is given to financial markets' recurring fads.

INVESTMENT METHODOLOGY

Since the company's inception, the portfolios have been managed according to the same methodology built around some key principles:

- The need to rely on **screening and analytical tools which are independent** of the stock market's influence.
- The determination, for each company in which we are likely to invest, of an **intrinsic value**, generally estimated according to its long term ability to generate Free Cash Flows.
- The requirement for every investment to incorporate a **qualitative margin of safety**: we generally favor companies with significant and sustainable competitive advantages and experienced managements, whose incentive packages are tied to long-term stock price performance. The business models must be relatively simple, resilient and time-tested.
- The requirement for every investment to incorporate a **quantitative margin of safety**: we generally favor companies with a track record of high rates of return, primarily on capital, equity, and revenue, over the past 5 to 7 years and whose stock we can purchase at or below their estimated intrinsic value.
- The objective of **minimizing the risk of permanent loss of capital**, through making investments primarily in companies which benefit from high levels of margins of safety, rather than trying to minimize and monitor the volatility of the portfolio.
- The focus on micro-economic analysis while taking into account the financial performance, over a complete economic cycle, of the companies we follow. **Macro-economic expectations generally do not play any material role in our portfolio building and monitoring process**
- The importance given to the notion of **conflict of interest**, specifically with respect to the relationships between minority and controlling stockholders, between management, employees and stockholders, etc.
- The preference for **concentrated portfolios**, built around a limited number of securities.

THE 7 INTRINSIC QUALITIES OF PASTEL & ASSOCIÉS PORTFOLIO MANAGEMENT

Independence: we build our own opinion of the valuation of companies in which we invest, with no recourse to research and recommendations from brokerage houses and investment banks.

Process: our convictions are the result of an in-depth process aimed at knowing and understanding the companies and their environment in order to be able to evaluate their profitability potential over the long term.

Rationality: we endeavor to be rational in all circumstances by remaining focused on the intrinsic value of companies without being influenced by fashion or the tides of euphoria or pessimism which frequently prevail in financial markets.

Caution: we only invest in a company once we are satisfied that we have an adequate margin of safety, in order to limit the incidence of possible errors of judgment or unforeseen or unpredictable events affecting the company or its environment.

Patience: our long-term view requires patience and we remain invested in a company as long as its stock price's appreciation does not significantly exceed the potential return estimated at the time of the purchase.

Consistency: when making investment decisions, we endeavor to apply our methodology in a rigorous, disciplined, and systematic manner. The differential between our estimate of the intrinsic value of companies and their stock prices is the key factor we take into account when we decide to purchase or sell securities.

Concentration: we prefer to concentrate our resources and our investments on a limited number of stocks which we know well and which have, in our view, the potential to perform strongly over the long term.

WHAT PASTEL & ASSOCIÉS PORTFOLIO MANAGEMENT CAN OFFER

On a long-term perspective: an original and robust investment methodology with, for each of the companies in the portfolio, a double objective:

- **A high return on investment.**
- **A minimization of the risk of permanent loss of principal**

From an asset allocation perspective: enhanced portfolio risk/reward due to:

- **An international orientation**, specifically towards the American and British markets.
- **Potential de-correlation** given the original portfolio set-up, which diverges from the benchmark.