CHAMPOUSE GROUP

December 2014

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Overview

Background

- The Champouse's objective is to produce above-average returns through conservative and opportunistic investing in under-followed equities, with flexibility to pursue other parts of the capital structure

Investment Philosophy

- Modeled after partnerships managed by Warren Buffett from 1956 to 1969
- Only invest in situations with asymmetric risk-reward profiles and value realization catalysts
- Evaluate an investment idea as if buying an entire company, focusing foremost on "price" versus "value"
- Focus on companies with predictable revenue sources and properly incentivized management teams
- Exhaustive bottom-up research and original insight into every investment
- Concentrate effort and assets on a limited number of "best ideas" to minimize risk of capital loss

Positioned for Long-Term Success

- Patient, opportunistic investment process and a long term time horizon allows the Fund to pursue only high conviction ideas with the potential to produce outsized returns over time
- Large discounts to fair value and presence of catalysts reduce reliance on direction of market and economy

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Managing Member

Matthew C. Pauls

- Managing Member of Fernbank Partners, LLC (September 2010-December 2014)
    - Annual returns of 36% (with an average cash balance of more than 20%)
- Director of CRH Medical (CRH-TO), a TSX listed Company
- BS in Finance and a dual degree in Sociology from Virginia Commonwealth University

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Investment Philosophy

Summary

Be Patient and Disciplined

Focus on Risk before Return
(e.g. Price versus Value)

Concentrate on Best Ideas

Purchase with a significant Margin of Safety

Search for Hidden Assets & Free Optionality

→

Superior Investment Results

Below Average Risk of Capital Loss

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Investment Philosophy

Core Strategy

- Long Biased Value oriented investment partnership
  - Short positions when appropriate

- Long term, fundamental investors in businesses, not stocks
  - Tolerate higher monthly/quarterly volatility in exchange for absolute long-term capital appreciation

- Focus on simple, predictable, under-followed, overlooked, misunderstood, unappreciated, ignored companies at very attractive valuations
  - Owner-managers who paid for ownership or otherwise founded the business
  - High barriers to entry, high unlevered returns on equity, capacity to retain earnings
  - No or very limited need for debt financing, especially short-term recourse loans
  - Hidden assets, free optionality

- Avoid businesses and geographies likely to experience rapid change

- Identify catalysts to accelerate broad recognition of underlying value to guard against illiquidity risk
  - Use ownership to influence recapitalization options (use of owner funds)

- Only commit when the investment opportunity hits us *over-the-head*
  - When price is extremely cheap relative to our estimate of underlying value

- Exhaustive bottom-up research and original insight into every investment
- Concentrate effort and assets on a limited number of “best ideas” to minimize risk of capital loss

Complementary Strategy

- Selective investments in special situations e.g. securities with a timetable, results tied to corporate activity not general market
  - Mergers, reorganizations, spin-offs, tender-offers, post bankruptcy securities, etc.
  - Arbitrage

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Investment Philosophy

Long-Term Investments

Investment framework is centered around a series of principles-a way of thinking about investing-that forces me to focus first on risk before return, always thinking in terms of price versus value

Look very carefully at valuation, for companies that produce good results under bad scenarios and search for free optionality, <u>but require a bargain price</u>

- Large margin of safety
    - Price vs Value
- Little/No Debt on Balance Sheet
    - No debt=no bankruptcy (one way to avoid permanent and total loss of capital)
- Owner-managers with proper incentive structure
- Avoid businesses and geographies likely to experience rapid change
- 2 year return expectations of 50%-100% without aggressive assumptions
- Negative news, unfashionable/boring businesses, complex situations that cause disconnect between price and value

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Investment Process

Heavy Research-Driven Approach to Investing

- I do my our own research
- Acquire original sources of information
- Close attention paid to the integrity of managers, board members, large shareholders, etc.

Idea Generation (Knowing where to look is a distinctive edge)

- Investments selected and sourced by opportunity
- Monitor closely held list of worlds best businesses for cheap buying opportunities
- Public information
- Active screening
- Industry Contacts
- Supply demand imbalances

Attempt to kill best ideas

- Avoid confirmation bias by searching for disconfirming evidence against best ideas

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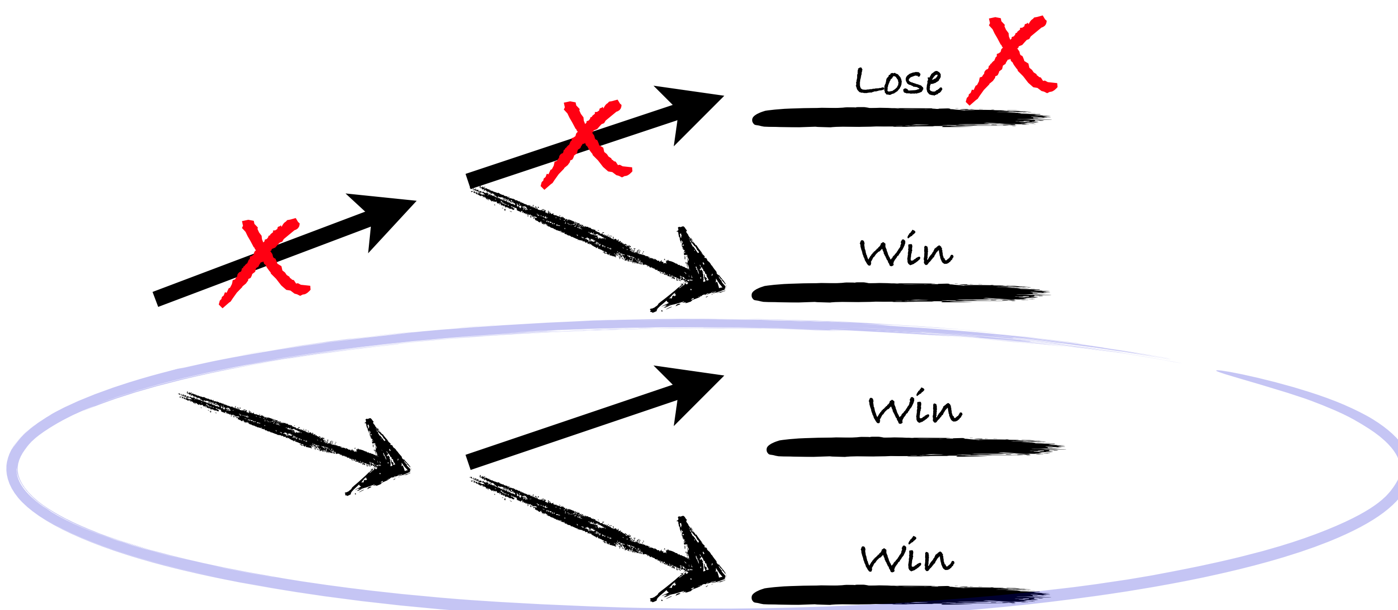
Risk

- Risk is <u>not</u> Beta
- Risk is the potential for a permanent loss of capital



"All I want to know is where I'm going to die so I never go there."
-Charlie Munger

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Risk Management

Capital Preservation is Champouse's First priority

Three primary sources of *permanent loss of capital* (*risk*)

Leverage	Avoid companies with excessive amounts of debt Limited use of investment leverage in Champouse
Purchase Price	Wait for investments to hit us over the head Require significant margin of safety Concentrate holdings in best ideas
Quality of investment decision	Focus on understandable predictable businesses Always trying to destroy our best ideas Diligent research and analysis

Superior investment returns are the result of understanding underlying business value and requiring a cheap enough price that provides an adequate margin of safety

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Key Differentiators

Vast majority of the investment industry not set up for the investors benefit

- Incentives for funds to get very big
  - Bigger the fund the bigger the fees
    - <u>Explains</u> why most investment returns trend toward mediocrity
      - As long as returns are average, funds keep clients
      - <u>Explains</u> why analyst reports & consensus views get so much attention
        - <u>Explains</u> the overemphasis of diversification and use of Beta as measure of Risk

But

- **Explains why good opportunities exist**
- **Allows me to identify areas of opportunity**

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Summary of Terms

Management Fee	Performance Fee	Lock-up	Minimum Investment
2%	15%	1-Year	$200,000

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