MAC Alpha Capital – Investment Philosophy

MAC Alpha Capital's investment objectives are to generate absolute and relative returns from global small capitalization securities, more than our active management peers and the reference benchmarks, and with lower risk, over a full market cycle.

We are value investors, more like Buffett than Graham, who focus on what we call the 3 C's: Competitive Advantages, Culture, and Capital Allocation. We apply an in-depth, fundamental research driven approach to security selection, combined with rigorous, systematic portfolio construction and risk management (both on individual positions and a full portfolio basis).

We seek to buy equity securities at a price less than our current estimate of their fair value. We don't simply buy statistically cheap securities but seek to identify great businesses that we believe have strong competitive advantages. We buy these businesses at a price which enables the compounding of value to take place over many years. These "higher quality" businesses are less likely to be deeply inexpensive on trailing valuation metrics, yet if analyzed properly by a sophisticated business analyst will likely provide greater returns over time. That means buying what we believe to be undervalued securities of higher quality companies that have:

- Competitive Advantage – a good business model relative to their peers, with high and stable market share, solid free cash flow generation, high rates of return on capital and equity, higher margins, better balance sheets, and are growing.
- Culture – have a senior leadership team that has cultivated an environment and incentives which are aligned with the desired results; high insider ownership.
- Capital Allocation – a history of high returns on capital and strong capital allocation.

We believe the original Graham style of deep value investing has evolved over the past 90 years and that we must continue to evolve to persistently generate alpha. Some things have changed over time and our adaptation to valuing things like intangibles, which do not necessarily show up on the balance sheet, are an integral part of that evolution.

At MAC Alpha we have a natural curiosity and a collective passion for learning and improvement in all aspects of investing. We also recognize the importance of self-awareness and actively seek to identify, acknowledge, and manage potential 'blind spots' – for example we write down our research findings, following checklists to combat behavioral biases such as anchoring, normalcy, overconfidence, and negativity.

We leverage data within our process to be more efficient. We are in a 'return on capital' business and believe that 'return on time' is a critically important contributor to success. We have therefore endeavored to quantify everything possible to enable us to narrow down our search process and find the well-stocked ponds to fish in. We focus on improving our returns by not wasting our time with companies that are unlikely to meet our thresholds.

We invest considerable time in the historical analysis of both companies and the industries they operate within - and not just the historical financials. We believe that it is critical to understand what was driving a business and industry at a given point in history, as this provides additional context to our statistical reviews of fundamentals and stock price performance over time. For example, we believe that we:

- Need to be able to understand not just a cycle, but how sentiment shifts with various impacts to a business.

- Must fully understand the metrics, not just extrapolate the trends. For instance, decreased returns on capital in the short term could be a good thing if the potential portfolio company is the only one investing in an industry that is about to become capacity constrained.
- Require a recognition of history to effectively anticipate what is likely to happen to the way value will be perceived as a company goes down various earnings paths.

The deep knowledge that we develop through this work allows us to think probabilistically and to manage asymmetry. The future is uncertain, but if you have a strong understanding of what paths are possible you can comprehend the asymmetry available in a business. And managing asymmetry is key to providing attractive risk adjusted returns.

We have a long-term investment time horizon and expect, and hope, to hold many of our investments for multiple years. The nature of this approach means that we:

- Have less competition – few investors are willing take a genuinely long-term approach
- Intentionally look very different to the benchmark
- Are highly differentiated from our active small cap focused peers and therefore are less likely to be heavily invested in the same sectors everyone else is
- Typically perform much better in less ebullient markets and therefore deliver differentiated paths of return

Ultimately, we believe that humility and temperament are the key intangible attributes which define and differentiate great investors. While these are not ‘traditional’ elements of an “investment philosophy”, our respect for and aspiration to exhibit these character traits ultimately helps to define our culture and determines the manner in which we operate. Just as we believe culture is one of the key success factors of companies we invest in, we have structured our Firm to create a unique culture of alignment in an effort to eliminate the friction costs that exist in so many asset management firms and thus enable us to remain true to our philosophy and beliefs.