CAMSTON

ASSET MANAGEMENT

INVESTOR HANDBOOK

ADV Disclosure

Investment advisors must provide a copy of their Form ADV Part 2A: Firm Brochure, which includes essential information about the firm's services, fees, conflicts of interest, and other material arrangements. If you become a Camston Asset Management, LLC client, you will receive our Form ADV Part 2A: Firm Brochure, which you are urged to read. This Investor Handbook is to be used as a supplement to Form ADV Part 2A.

Overview

Camston Asset Management, LLC is a registered independent investment advisory firm in Nebraska. Camston has an open mandate, primarily focusing on small-capitalization companies across North America and Europe. Our approach emphasizes a highly concentrated portfolio, typically holding fewer than 20 positions, focused and strategic investments.

The name Camston reflects a deeply personal commitment. It blends the names of my first two daughters, Cameron and Aniston. This choice serves as a daily reminder of my mission: to create lasting wealth for my family and clients while upholding the highest standards of care and responsibility.

At Camston Asset Management, we manage investments through a structure that prioritizes ownership and transparency. Our clients hold their investments directly in "separately managed accounts" maintained with one or more independent, qualified custodians. This approach ensures our clients have control and clear visibility into the securities we select for them, fostering a relationship of trust and accountability.

Why an Investor Handbook?

I provide an Investor Handbook alongside my brochure to provide clients with a clear and comprehensive understanding of my investment philosophy, selection methodology, and overall approach. My goal is to ensure that you fully understand what I aim to achieve, the principles I adhere to, and the strategies I employ. Your understanding is essential to fostering trust and aligning our efforts toward achieving our shared goals.

Investment Philosophy

The capital entrusted to my care represents years of hard work, dedication, and savings. My primary objectives are to protect and grow these savings by investing in ownership stakes in highly productive companies with sustainable means of generating long-term economic profit. I view stock ownership as direct participation in a business. As such, I hold companies and their management teams to the highest standards, seeking exceptional businesses led by trustworthy, long-term-focused managers who often have significant personal investment in their companies.

Exceptional opportunities are rare, and I approach investing with patience and discipline. I avoid unnecessary activity, allowing accounts to remain relatively quiet for weeks, months, or years until I identify ownership opportunities with an attractive risk/reward profile. During these periods, accounts may hold substantial positions in cash or cash equivalents, preserving capital to seize future market opportunities. I understand that prosperity can be fleeting, and I remain prepared for market volatility. This measured approach aligns with an Austrian investment philosophy, emphasizing prudence and savings as the foundation for building generational wealth.

I do not equate market volatility with risk; instead, I aim to leverage volatility as an opportunity. As Seneca the Younger, the Roman Stoic philosopher, wisely said:

"Cling tooth and nail to the following rule: not to give in to adversity, not to trust prosperity, and always take full note of fortune's habit of behaving just as she pleases. Whatever you have been expecting for some time comes as less of a shock."

I strive to approach the market with stoic equanimity, focusing on the underlying fundamentals of businesses we own or wish to own. I dedicate significant time to researching and analyzing companies to ensure I can act decisively when opportunities align with my criteria.

My investment process relies on rigorous fundamental analysis. I maintain conservative assumptions and expectations, requiring a thorough understanding of each business's operations. I prioritize companies with straightforward, analyzable business models and defensible unit economics, avoiding businesses vulnerable to risks that could erode their ability to sustain high returns. This disciplined approach naturally leads to concentrated portfolios, typically containing fewer than 20 positions.

While a concentrated portfolio may experience short-term volatility, it aligns with a long-term investment horizon. I seek clients who share a generational perspective, as time arbitrage—the ability to look beyond quarter-to-quarter results—remains one of the most significant advantages available to investors.

Your understanding of my investment philosophy is essential because the success of our investment goals requires the investor and advisor to be on the same page. I want to provide a plan that suits your goals and objectives. Just as importantly, I don't want you to withdraw your money from the managed accounts due to short-term market changes. Aside from the obvious fact that I receive fees from the account, a change in allocation can be detrimental to long-term investment success.

Investment Strategy

Own high-quality businesses

While this may seem obvious, it's important to clearly define what I consider a "high-quality business."

In Berkshire Hathaway's 1979 annual letter, Warren Buffett highlighted what I believe is the most crucial metric in identifying high-quality companies: "**The primary test of managerial economic performance is the achievement of a high earnings rate on equity capital employed** (without undue leverage, accounting gimmickry, etc.) and not the achievement of consistent gains in earnings per share. In our view, many businesses would be better understood by their shareholder owners, as well as the general public, if managements and financial analysts modified the primary emphasis they place upon earnings per share, and upon yearly changes in that figure." (Emphasis added)

A high-quality business can consistently and sustainably maintain a high return on capital employed. The company must also be able to reinvest a significant portion of these returns into the business to fuel growth at similarly high returns. The remaining cash should be strategically retained for future positioning or reliably returned to shareholders. This requires an honest, capable, and efficient management team.

The circuitous nature of reinvestment requires a management team with a long-term focus. Although reinvestment may not immediately produce earnings, it should be long-term accretive as the company furthers its competitive position.

Additionally, the consistent quality I seek out will typically exclude cyclical companies. This approach rules out businesses that sell products of extended durability without substantial service revenue, make/provide deferable products/services, or have an extendable half-life.

"Over the long term, it's hard for a stock to earn a much better return than the business which underlies it earns. If the business earns six percent on capital over the forty years and you hold it for that forty years, you're not going to make much different than a six percent return – even if you originally buy it at a huge discount. Conversely, if a business earns eighteen percent on capital over twenty or thirty years, even if you pay an expensive looking price, you'll end up with one hell of a result." – Charlie Munger

"A stock return will eventually echo the increase in the per share intrinsic value of the underlying company." –
Francois Rochon

Buy companies at attractive prices

I focus on companies with high returns on capital as potential investment opportunities. Beyond these returns, I also look for attractive yields on our investments. While I seek to buy exceptional businesses, I recognize that no matter how outstanding a company is, no operations justify an unlimited valuation. The high-quality businesses I target often trade at valuations that reflect their excellence, which is why I must exercise great patience. I wait for the right opportunity to acquire these companies at an attractive price, particularly when the broader market overlooks them, they face temporary setbacks, or they experience short-term negative news. I look to take advantage when high-quality companies face temporary but not fundamentally challenging prospects.

I aim to invest when the free cash flow yield—calculated as the free cash flow generated by the company's ongoing operations as a percentage of its valuation—is high relative to long-term interest rates and other investments of similar quality. I also consider net worth as a percentage of market capitalization to help identify potential opportunities. However, even with high capital returns and an appealing free cash flow yield, I must understand how the company achieves these returns and whether they are sustainable over the long term.

Own businesses whose assets are scarce

When searching for scarcity, I focus not only on what is quantifiable and tangible but also on what has the ability to survive, adapt, and endure. Scarcity is often found in intangibles such as trademarks, brand recognition, distribution networks, technical expertise, and market share.

However, tangible assets like real estate or infrastructure can also provide a business with a competitive edge that is difficult, if not impossible, to replicate or displace.

The scarcity of these tangible and intangible assets safeguards companies from the competitive pressures that could erode their advantage. The businesses I seek are exceptional in that they do not revert to the mean over time.

Own businesses that have white space for growth

I look for companies that can effectively reinvest a significant portion of their cash flow into the business by expanding into untapped "white space." I define white space as areas of growth potential in new markets, products, or services that can attract and expand the existing customer base.

However, growth should never be pursued in isolation. Growth, for growth's sake, does not necessarily create shareholder value. The cost of capital employed to generate the growth must be considered to determine whether it creates shareholder value. It is imperative to understand how management achieves growth.

I want management to approach growth opportunities with a sober, pragmatic mindset, avoiding unnecessary or unwarranted investments.

"Growth only for growth's sake is the ideology of the cancer cell" – Edward Abbey

Own businesses that are durable

I seek companies with a proven track record of success. I do not gamble on unproven technologies, biotech startups, or similar high-risk ventures, and I do not invest in businesses subject to rapid technological disruption.

Businesses must have some form of independence to endure. Dependence makes a company fragile. If a company is too reliant on a single customer, supplier, subsidy, etc., it will be subject to potential disruption.

I want to understand the threats and challenges that the company faces. Not only the threats and challenges that a company currently faces but also how they have navigated challenges in the past to understand the company's traits that have enabled them to survive over many years.

Avoid highly leveraged companies

I seek to invest in companies that can achieve high returns without relying on leverage. While companies may occasionally use leverage during different business cycle phases, I prefer those with low debt levels. Excessive leverage reduces flexibility and increases the risk of fragility. I want the companies I invest in to maintain the ability to borrow when necessary, without placing undue financial strain on the organization. Management should not take on significant debt obligations to enhance returns during stable periods of the economic cycle. Instead, I favor companies that generate sufficient free cash flow to fund their operations independently without needing external capital. Finally, I look for companies with strong interest coverage on the debt they utilize.

Seek to buy and hold

When I obtain an ownership stake in an outstanding company, I seek to hold it for the long term and let the power of compounding work its magic. There is not an endless supply of quality companies, so I intend to hold onto them until something fundamentally changes how the company operates.

Many advisors and managers confuse activity with performance. My investors are paying me not for activity but for results.

What would cause me to sell

I intend to hold investments in companies for the long term unless there is a significant change in their fundamental outlook. The leadership and management of these businesses are critical to their success. Therefore, whenever there is a change in leadership, I will reevaluate our holdings. A new management team without a proven track record of quality capital allocation will prompt me to proceed with caution.

Since the return on capital employed is a primary focus of my investment strategy, I will be highly skeptical when there are changes in capital allocation. If there are substantial shifts from the strategies that have driven the company's success, I will reassess its future prospects.

Honesty and transparency are core values for me. As a minority shareholder in the companies I invest in, I must place trust in the management to accurately communicate the operations and prospects of the business. If this trust is broken, I will promptly divest our holdings.

While I aim to hold investments indefinitely, I recognize that no company is worth an infinite valuation. If one of our portfolio companies reaches an unsustainable valuation, I will seek to redeploy that capital into an enterprise with stronger growth prospects and better potential for compounding returns.

What do we charge you?

I believe in the Silver Rule. That is, do not do unto others that you would not have them do unto you. The Silver Rule is more robust than the Golden Rule as we all do not have the same wants and desires, but most of us have the same aversions. For that reason, I do not charge any initial fees, planning fees, performance fees, or redemption fees. I would not want to pay any of these fees to any advisor or manager, and I do not expect my clients to pay them either.

I simply charge a 1% per annum fee in our separately managed accounts to ensure that my interests align with those of our investors and that the fee is transparent.

I seek to provide transparency through our Form ADV Part 2A and this supplemental Investor Handbook so that investors can make well-informed decisions about allocating their hard-earned savings.

The Investment Advisor

Camston Asset Management, LLC, was founded by Beau Fruechtenicht in 2017. I have been registered as an investment advisor since March 2020. I focus on protecting and growing my clients' hard-earned wealth.

Beau Fruechtenicht

I graduated from the University of Nebraska – Lincoln in 2006 with a Bachelor of Science in Business Administration - Finance.

After graduation, I joined a small group of friends to build a business focused on designing, engineering, and building cellular and WIFI networks. Over the ensuing decade, we built the company from five persons and one office to an organization with over one hundred employees with more than a dozen offices throughout the United States, serving all fifty states and Puerto Rico. This growth enabled me to spend time in all aspects of the organization, fulfilling roles that included hiring, selling, purchasing, conducting cash flow analysis, management, and engineering, ultimately serving as Vice President with company-wide responsibilities.

I believe this experience serves me well in investing. I have experienced the effects that management and communication can have on reaching objectives, the difficulties of improving underperforming departments, and the difficulties of pursuing profitable growth. To paraphrase Warren Buffett, I am now a better investor because I was a business operator.

I stepped away from that endeavor in 2019 to invest my savings in public markets. I became an adviser in March of 2020.

I am also a licensed real estate broker in Nebraska. I am the managing broker of Camston Property Partners, LLC. Camston Property Partners, LLC is a boutique business, and I spend less than 5% of my time managing the business.

I enjoy spending time with my wife and four children when not working. I am an avid reader and love nature and gardening. Getting outside for long walks, hikes, or runs recharges my energy. I enjoy all forms of sport.

Important Disclosures

The views outlined in this Investor Handbook are those of Camston Asset Management, LLC and should not be construed as individualized or personalized investment advice. It is general in nature and offered only for educational purposes. No investment decisions should be based solely upon its contents.

Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly, will be profitable, equal any historical performance level(s), or be suitable for a given client or portfolio. Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of entire principal and potential illiquidity of the investment in a falling market. All information is obtained from sources believed to be reliable, but Camston Asset Management, LLC has not verified its accuracy and does not guarantee its reliability.

To the extent that you have any questions regarding the applicability of any specific issue discussed above to your individual situation, you are encouraged to consult with Camston Asset Management, LLC or the professional advisor of your choosing.

This Investor Handbook does not constitute an engagement with Camston Asset Management, LLC. An investment advisory relationship can only be established and investment advice can only be provided after the following three events have been completed: (1) our thorough review with you of all the relevant facts pertaining to a potential engagement; (2) the execution of a written engagement and fee agreement; and (3) delivery of the Form ADV Part 2A: Firm Brochure.