

# Silver Pine Capital, LLC

*“Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria. The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell.”*

*- Sir John Templeton, CFA*

## Silver Pine Capital, LLC - Hedged Strategic Value

### Organization

The firm is an independent registered investment advisor established in 2009.

### Portfolio Manager

Robert Skloff, CFA

### Investment Philosophy

Silver Pine Capital (SPC) is an equity long/short investment manager focused on small to middle capitalization companies. The firm's investment philosophy is to purchase stocks in much the same way that a knowledgeable buyer would evaluate a business for acquisition in its entirety. The business should be easily understood, have favorable long-term prospects, be managed by competent individuals with integrity and, most importantly, be available at a price that presents a discount to its intrinsic value. SPC believes the larger the discount, the less risk the investor assumes, and the greater the "margin of safety". This approach to investing, first laid down by Benjamin Graham and later championed by Warren Buffett, is widely referred to as "value investing". Short sales are implemented using the reverse philosophy with a particular focus on weak/unsustainable returns, poor competitive positioning, aggressive accounting and unreasonable valuations.

### Universe

The original investment universe spans small to mid-capitalization companies and includes all stocks smaller than the largest stock in the Russell Mid Cap Index. Through a system of basic screens, this universe is narrowed to approximately 200 to 250 stocks.

### Investment Process

SPC utilizes bottom-up stock selection focusing on undervalued (or overvalued), under-followed companies. It invests in equities it believes are experiencing pricing distortions caused by overreaction to short-term events. The portfolio manager/advisors select what their research indicates are the most attractively valued stocks within broadly defined sectors by identifying companies priced below what it believes is their long-term earnings power. These companies should have solid long-term prospects and a demonstrated history of management integrity. The most attractive companies will possess exceptional earning power (earnings power play); or be selling at a substantial discount to an asset base likely to produce high earnings in the future (asset play).

*(Cont.)*

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### Sell Discipline

Holdings are reduced or eliminated when p/e reaches 150% of buy criteria (the value at which the stock qualifies for purchase), valuation approaches estimated private market value; company fundamentals change, regardless of price; or a superior alternative value presents itself.

### Risk Management

The firm seeks to mitigate risk through the following procedures:

- Quality fundamental research and constant portfolio review
  - Rigorous research process at the company level
  - Constant review of target price triggers and 15% stop loss alerts
- Portfolio monitoring by Portfolio Managers
  - Liquidity levels, short interest, borrow availability
  - Stress testing and beta-adjusted analysis
- Adherence to size and exposure limits
  - Longs: 5.0% at cost, 8.0% at market
  - Shorts: 3.0% at cost, 4.0% at market
  - 120% gross exposure limit
  - 10% to 60% net exposure

### Transparency

Silver Pine Capital seeks to operate a fully-transparent investment firm. The principals are ardent believers in maintaining an open dialogue with its clients and 360° transparency of its operations. They provide clients with full control over their assets in the form of a separately managed accounts. Silver Pine Capital never takes possession of its clients' assets – they are held at an independent custodian. Clients can receive online access to their account information through their custodian, 365 days a year.

### Research

Silver Pine generates its own independent research product. Underpinned by more than 20 years of combined experience and expertise across various industries, our portfolio manager/advisors focus on examining business fundamentals, financials, management teams, business strategies as well as performing extensive channel checks.

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### Investment Process (cont.)

Earnings power play stocks are selected on the basis of seven key variables:

#### *Quantitative*

- 1) **Low P/E:** Earnings yield in excess of AA 20-year corporate bond yields on forward 12 month earnings
- 2) **High ROE:** Consistently high and sustainable normalized ROE (> 15%)
- 3) **Clean Balance Sheet:** Low level of financial leverage relative to industry peers
- 4) **Positive Free Cash Flow:** Ability to fund growth via internally generated cash flow
- 5) **Earning Growth:** Consistent historical earnings growth

#### *Qualitative*

- 6) **Growth Outpacing Inflation:** Articulated, understandable business plan to grow earnings and revenues faster than inflation on a secular basis
- 7) **Management Integrity:** Utilizes conservative accounting and management incentives that are in line with shareholders

In addition, SPC seeks to profit from situations involving securities that it believes will decline in value. Portfolio managers will typically sell (or sell short) companies with unfavorable long-term prospects, including those with unsustainable growth characteristics, weak competitive positions, poor returns on invested capital, aggressive accounting or unreasonable valuation.

Risk is managed through portfolio-level and position-level limits. The firm employs short-sale and options strategies to exploit opportunities or to hedge risk.

### Portfolio Construction

- Net long (short) exposure: Maximum of 60%
- Portfolio Construction: 20-30 long positions & 20-30 short positions
- Maximum industry weight 35%
- Individual position sizes:
  - o Longs: Maximum of 5% at cost (8% at market)
  - o Shorts: Maximum of 3% at cost (4% at market)
- Leverage limit at 120%

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## Portfolio Management

### Robert M. Skloff, CFA

Robert has thirteen years of investment industry experience, holding positions as an Equity Analyst at Sidoti & Company, LLC, Analyst at Delphi Management, and Vice President/Senior Analyst at Evergreen Investments (J.L. Kaplan Associates was a division of Well Fargo Securities). His industry focus includes media, publishing, industrials, materials and consumer staples and discretionary. Robert received a BA in History and Spanish from Franklin & Marshall College, a MA in International Affairs from the Elliott School at George Washington University, and a MBA in Finance and Corporate Accounting from the Simon School of Business Administration at the University of Rochester. He is a member of the CFA Institute and The Boston Security Analysts Society. Robert and his family live in the Boston suburbs.

## Operations

### Phyllis Papparazzo

Phyllis has eleven years of industry experience, previously holding positions as Director of Investor Relations at Forrester Research, Inc., Vice President at Ilios Partners, LLC and Director at Thomson Financial Corporate Group. She has substantial institutional and retail experience. Phyllis is detail-oriented which is consistent with the firm's goal of providing our clients with exceptional service. Phyllis received a BA in Political Science from Bates College and an Executive MBA from Fordham University Graduate School of Business Administration.

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## Q&A

### **Why should I consider investing with Silver Pine?**

Our portfolio manager/advisors have extensive investment experience and exceptional track records of professional and educational success. We have all worked for highly-regarded investment firms and bring a wealth of investment knowledge to stock selection and the construction of investment portfolios. As an investor with Silver Pine, you get Wall Street experience and expertise without the conflicts of interest or bias of large brokerage investment management services. Additionally, Silver Pine is owned and operated by its portfolio managers. Our ultimate success is aligned with yours. We are sensitive to risk and manage our portfolios with an eye toward earning higher returns at an appropriate level of risk. We are all accessible and provide the transparency an investor needs (through separately managed accounts) to understand and monitor our investment strategy and process.

### **Can you briefly describe your investment strategy?**

We employ a value-oriented strategy that seeks to identify companies that are selling at a meaningful discount to what we believe to be intrinsic value. Intrinsic value is determined by the portfolio manager's analysis of a company's growth, risk and cash flow characteristics. Conversely our sell discipline dictates that a security is sold once it reaches our estimate of intrinsic value. Our short sale discipline targets overvalued securities with structural impediments to growth or unsustainable returns.

### **How do you choose your investments?**

Typically we target small to medium sized companies that are characterized by sustainable long-term earnings power (or the ability to produce sustainable earnings growth) and/or companies that have the ability to improve productivity of existing assets. While we do use basic quantitative screening to narrow down our potential investment universe, to identify uniquely attractive investment opportunities we rely mainly on the investment experience among our portfolio managers/advisors and the rigorous research process we employ. It is this investment expertise tied to our independent research process that directs us toward the most attractive equities within a particular industry.

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**Q&A (cont.)**

**How do you protect against market losses?**

We employ a hedged long/short equity structure that offsets long positions with short sales and other hedging strategies in an attempt to reduce overall portfolio risk, with the objective of delivering superior risk-adjusted returns. Our goal is to always deliver positive total returns while withstanding severe market conditions through use of risk management strategies. These hedging strategies include portfolio insurance, shorts, covered call writing and other option strategies. We believe that protection is as important as growth.

**How are you compensated as the investment manager?**

We are a fee-only advisor with compensation based on a percentage of assets under management and performance incentives. We do not generate fees from transaction based activities, thus we are incentivized to generate positive total returns for our investors.

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