# INVESTMENT PHILOSOPHY
# A COMMON SENSE APPROACH TO INVESTING

## OUR OBJECTIVE

We construct all of our investment strategies around two simple objectives: to preserve and grow our clients' capital. We believe the management of risk, not the management of returns, is the best way to meet our clients' long-term investment objectives.

## INVESTMENT PHILOSOPHY

Our philosophy is born from Benjamin Graham's famous quote "investing is most intelligent when it is most business like." Warren Buffett said these are the most important words ever written about investing, and we agree. We believe that investors should act like owners of a business and this principle guides how we invest. We embrace an "ownership" mentality rather than the commonly held view that stocks should only be "rented" for the short term.

### STYLE

At GCIC, we invest only in high quality businesses, and we expect the return on our investment to be driven predominantly by:

1) the underlying cash flows generated by the businesses we own; and

2) the price we pay to acquire the shares of those businesses. With that comes a high degree of selectivity. In our opinion, there are many more bad or mediocre businesses that are not attractive as long-term investments, at any price. Consequently, we focus only on leading companies in attractive industries with strong and sustainable competitive positions, high returns on capital, strong free cash flows and management teams that think and behave like owners.

### VALUATION

When considering a business, we view value in absolute terms, not merely on a relative basis. Our discipline is to buy high quality businesses at prices below our estimate of their intrinsic value. We do not buy stocks simply because they are down; we invest in companies because their stocks are mispriced. The ratio of price to intrinsic value is at the core of our valuation methodology and risk management.

### LONG-TERM INVESTMENT HORIZON

We are patient, long-term investors. We seek to take advantage of temporary dislocations in the stock market, focusing on the long-term intrinsic value of the business and its underlying assets. We believe that our ability to be patient and focus on the long-term gives us a competitive advantage over many of our peers who often do not have that luxury. There can be periods where fundamentals and prices disconnect, but ultimately fundamentals are what matter.

### RISK MANAGEMENT

Managing risk is critically important to delivering attractive long-term investment returns. As a result, we begin our evaluation of each investment with a healthy dose of skepticism. Before considering how much money we might earn on a new investment, we always consider how much we might lose. Most academics and speculators define risk as volatility, or the degree of changes in the price of a security, whether up or down. At GCIC, we define risk as the permanent loss of capital. With this definition in mind, the most appropriate way to control risk is to know exactly what you own and what it is worth. Therefore, we base all investments on a deep, fundamental, bottom-up research process that results in a concentrated portfolio. This allows us to focus on our highest conviction ideas and allows them to have a material impact on the portfolio. The better we understand the merits of a particular business, the lower the overall risk of making a poor investment decision.

### ALIGNMENT WITH CLIENTS

We are strong believers that our interests must be 100% aligned with our clients. If you do not succeed, neither will we. This starts with investing our own capital alongside our clients. The partners of Goodman & Company were the first clients of the firm with each having committed a significant portion of their liquid capital alongside that of our clients. Our money sits right alongside your money. We believe this lays the foundation for a long lasting, mutually beneficial relationship.

## INVESTMENT PROCESS

### 1: IDEA GENERATION

There is no secret formula or quantitative screen used to identify high quality businesses that are mispriced. Identification typically comes from extensive reading, investigative travel, unconventional thinking and having a seasoned research team. Our approach does not restrict where we will invest or the size of the company we will invest in; it only limits the quality of the business we will own and the price we will pay to own a share of that business. Once a potential investment opportunity has been identified, we begin our due diligence process.

### 2: FUNDAMENTAL ANALYSIS

Opportunities worthy of further study are put through the rigorous analysis necessary to attain the level of comfort inherent in a prudent investment. Our extensive research includes evaluation of company reports, industry journals, sell-side research as well as speaking with and visiting management teams. Qualifying companies must be an industry leader, have a sustainable competitive advantage, have a history of growing revenue, margins and cash flows, must be capable of generating strong returns on capital, possess a strong or improving balance sheet and must be run by a capable, shareholder-friendly management team.

### 3: BUYING DISCIPLINE

Our primary valuation tool is the Discounted Cash Flow model, given its emphasis on the current value of future free cash flows generated by a business. Through prudent analysis, we assess the value of a business under various scenarios, both optimistic and pessimistic, to understand its upside and downside potential.

We invest in our highest conviction ideas only when we are convinced that their shares can be purchased at a discount to our estimate of intrinsic value. If such a margin-of-safety does not exist, we remain patient and monitor the shares of that company until such a time arises.

### 4: SELL DISCIPLINE

Buying quality, undervalued companies only gets you half way to a successful investment experience, knowing when to sell them is of equal importance.

Portfolio positions are reduced or eliminated for one of four reasons:

1) there is an adverse permanent change in the long-term fundamentals of the business;
2) our valuation has been met;
3) a superior investment opportunity has presented itself; or
4) our original thesis is no longer valid.

### 5: PORTFOLIO CONSTRUCTION

Our relentless focus on owning the best businesses means that our portfolio's overlap with many commonly referenced indices, or competitors, tends to be very low. We are benchmark agnostic and build our portfolio from the bottom up while making a conscious effort to ensure appropriate diversification to avoid any concentrated country, sector and/or specific business risk. We believe that this investing discipline provides investors with a unique, high-quality portfolio with long-term price appreciation potential and mitigated downside risks.

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