
ST. JAMES PROCESS OVERVIEW

INVESTMENT STRATEGY

We are absolute return-oriented money managers who employ a fundamental investment discipline to equity portfolio management. This discipline starts with a measurement of intrinsic value of a business in relation to the price of its shares. The higher the quality of the business in terms of financial strength, free cash flow, earnings growth and internal rate of return, the higher our view of intrinsic value and the more we find the investment attractive.

Our proprietary investment research seeks to determine the appraised value of a company. The appraised value, or worth of a company, is sometimes referred to as intrinsic value, private market value, or break-up value.

Investments are ideally made at a significant discount, normally 40% to 50% below our view of a company's current intrinsic value. This allows us to invest with a margin of safety, as we strongly believe that the price paid for a company will ultimately determine return. By adhering to the principles of intrinsic value and margin of safety, our investment philosophy typically runs counter to the general market psychology. The buying and selling of companies is therefore based on investment discipline, not popular opinion.

We contend that a well-researched concentrated portfolio of our best ideas provides the best opportunity to protect and grow capital. Generally, no one issue accounts for more than 8% of the portfolio assets on the cost side; and no one industry group accounts for more than 20% of the portfolio's value. The typical portfolio will have approximately 20 companies, the majority of which are based in the United States. Portfolios are not constrained by market size or capitalization and a significant portion of portfolio assets may be invested in small, medium, or large companies with one market capitalization being more heavily weighted over the other at any given time.

St. James has successfully employed this "value" philosophy and stock selection process since 1999 with the goal of achieving superior returns while maintaining less risk than that of the general market.

A LONG-TERM APPROACH TO INVESTING

Years of investing have taught us that investor perceptions of an equity security fluctuate much more widely than underlying fundamentals. Thus we believe it is difficult, if not impossible, to predict short-term price movements. At St. James we look further out in our analysis, beyond readily apparent short-term information. As our view diverges from the consensus, we find investment opportunities.

In equities, we invest with an understanding that it takes years for a company to build plants, global distribution networks and brand identities. We evaluate management's strategies and their potential impact on a company's long-term profitability. Our view of each company as an ongoing business, rather than as a string of quarterly earnings projections, helps us better analyze price disparities and find promising investment opportunities.

We continually refocus on the long-term by asking: "based on what we know today, how would we invest an all-cash portfolio if we could not trade for three to five years?" This hypothetical question forces us to re-evaluate our portfolio holdings within an ever-changing market environment, and to reaffirm our rationale for long-term appreciation.

What Makes Us Unique?

Three factors distinguish St. James from other asset managers: independence, discipline, and a clearly defined, consistently applied investment philosophy. Our independence as a firm means that decisions are made exclusively for the benefit of our clients. Our discipline and solid record of performance support the expectation that we can continue to produce lasting value in a wide range of market environments. The philosophy that guides the management of our equity and balanced portfolios is built on traditional principles. We maintain a long-term focus, conduct our own research and employ a rigorous price discipline. Our decision making process takes full advantage of individual insights within a partnership-oriented culture. These factors drive the achievement of the competitive returns we seek for our clients and their portfolio.

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INDEPENDENT RESEARCH

Original research is at the heart of each investment, as we seek a well-founded thesis that looks at least three years ahead. Through our own investigation, we can more completely understand the forces that will either drive a company forward or slow its progress. Because we have independently built the case for our ideas, we have the confidence to invest in out-of-favor areas and to hold our ground when short-term sentiment is counter. In our experience, periods of great pessimism often generate the best investment bargains.

At St. James, we utilize a variety of available resources, including the latest electronic reporting tools. With regard to sell-side research, we are always skeptics who regularly test consensus conclusions against our own. Years of research experience give us an understanding of a company's past and present business plans and an in-depth perspective that goes beyond the face value of current data.

STRICT PRICE DISCIPLINE

A low entry price for each security position is a key driver of future returns. First, a low stock price incorporates low investor expectations that often serve as a buffer against the risk of decline. We are guided both in what we buy and what we sell by an ongoing search for superior value, steering clear of popular choices that come at a price we would rather not pay. Second, investing when valuations are low creates greater potential for capital appreciation.

Short-lived investor pessimism may temporarily depress a stock price below our view of the company's long-term fundamental value. Presented with a low stock price, we want to be confident that the company is well established, led by strong management and holding a competitive business franchise. We look for a catalyst that will propel both earnings and cash flow higher, and we are prepared to tolerate short-term price volatility if we have good reason to expect the long-term reward of significant appreciation.

INVESTMENT PROCESS

We look for good businesses, good people, and a good entry price. Because we are value investors, we seek to achieve superior long-term performance by acquiring equity securities of financially strong, well-managed companies run by capable management at market prices significantly below our assessment of their business value. We sell stocks when they approach our appraisal value.

Equities purchased at prices substantially less than their intrinsic worth protect capital from significant permanent loss and also appreciate substantially once the market recognizes the company's economic value.

A company's market price must trade at a discount to intrinsic value. We determine intrinsic value by studying financial statements, speaking with corporate management, analyzing regulatory information, reading trade publications, as well as other industry and corporate journals.

We may assess the company's liquidation value based on the current economic worth of assets and liabilities or we may determine the company's ongoing value based on its ability to generate free cash flow after required capital expenditures and working capital needs. We calculate the present value of the projected free cash flows plus a terminal value, using a conservative discount rate. Our analysis should represent the price that rational, independent buyers and sellers would negotiate in a private transaction.

