# CONTRARIAN RESEARCH REPORT COMPENDIUM

October 2013

## Featured Companies

*Smith & Wesson Holding Corp. (SWHC)*
*Biglari Holdings Inc. (BH)*
*Denny's Corp. (DENN)*
*Teletech Holdings Inc. (TTEC)*

## Updates on Past Ideas

*Oaktree Capital Group, LLC (OAK)*
*The Wendy's Company (WEN)*

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# *Murray's Musings*

## PREDICTIVE VARIABLES AND REAL ESTATE COMPANIES

The subset of real estate companies that simultaneously own real estate and manage real estate assets for third-party investors, using third-party capital, have a built-in performance advantage. Rather than suggesting how well the real estate will perform, we offer a relative predictive variable that says it is better to own real estate and manage it on behalf of third parties than simply to own real estate.

A large holder of real estate can achieve informational advantages in ways that generally are not possible in the financial markets, including information on upcoming lease renewals, the financial conditions of certain tenants, the intentions of certain tenants, and pending zoning changes to a neighborhood that might be either positive or negative. This general knowledge is held among real estate investors interested in a certain neighborhood, but it is unusual to find it in publicly available real estate databases. To the degree that one exploits information via third-party capital one can bring more capital to bear on the exact same phenomena more rapidly.

In theory, one could construct an alternative real estate index designed to be compared with the iShares Dow Jones U.S. Real Estate ETF (IYR). Examples of companies for inclusion would be W.P. Carey, DREAM (Dundee Real Estate Asset Management, recently spun off from Dundee Corporation), Kennedy Wilson, CBRE Corporation (formerly known as CB Richard Ellis), and possibly even Brookfield Asset Management.

As a generalization, in most periods of time those companies outperform IYR. A significant exception to that phenomenon was CBRE. Between July 2007 and March 2009 the price dropped from roughly $41 per share to slightly above $2 per share, which was a horrendous loss. By comparison, IYR lost about 64% of its value in the same period.

The following table was constructed to compare total returns for the period December 31, 2007 to March 6, 2009:

Table 1: Total returns, 12/31/07 to 3/6/09

| | | |
|---|---|---|
| WPC | W.P. Carey | (41.63) |
| CBG | CBRE Corp | (88.31) |
| KW | Kennedy Wilson | 3.74 |
| BAM | Brookfield Asset Mgmt | (66.51) |
| | *AVERAGE* | *(48.18)* |
| IYR | iShares Dow Jones Real Estate ETF | (64.13) |

*Source: Bloombergs*



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As you can see, IYR had a 64.1% negative return. Of the four companies, CBRE had a negative return of 88.3% and Brookfield Asset Management's total return was negative 66.5%. W.P. Carey's total return was a negative 41.6% and Kennedy Wilson, which was newly public in 2007 even though it is a company of long-standing provenance, was the only one of the four with a positive return; its total return was 3.7%.

Real estate companies managing third-party capital also have interesting attributes relative to publicly traded asset managers. The latter are vulnerable to an outflow of funds during some times of crisis. By contrast, outflow is not a problem for real estate companies managing third-party capital, because they manage in the form of partnerships with specific and long-term redemption dates. To the extent that they usually operate with modest leverage, as opposed to publicly traded companies that own real estate and operate with substantial leverage, those who manage third-party capital constitute a lower-risk business.

# *Industry Thoughts*

## REAL ESTATE OWNERS WITH INVESTMENT MANAGEMENT BUSINESSES

Continuing the theme in the *Musings* section, I will call the industry to be discussed real estate owners with an investment management business. The first example will be W.P. Carey. This company has a $4.5 billion market capitalization and owns 39.5 million square feet of real estate triple-net leases, the best kind of real estate to own. It also manages third-party capital with a value of $6.4 billion, which is 77 million square feet. It is taking a fee on almost two times the square footage that it carries on its own books, and it is the same asset—just more of it. The company has $2.2 billion of equity and $2 billion of debt. In the world of publicly traded real estate companies, particularly real estate investment trusts, that leverage is very light.

You could say the same for the other owner/managers of real estate. In its current incarnation CBRE has $1.7 billion of equity and $2.36 billion of debt, but it has about $500 million of cash. That gives it net debt of $1.8 billion, which is more or less equivalent to its $1.7 billion of equity. The real estate brokerage business is an intangible asset, the value of which is not necessarily reflected in the balance sheet, but it has an equity value nonetheless.

Kennedy Wilson has $651 million of equity on its balance sheet, $780 million of debt and $139 million of cash for a net debt of $641 million; its net debt is more or less equivalent to its shareholders' equity.



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The most interesting balance sheet happens to belong to Brookfield Asset Management. The company has $16.6 billion of common equity, but the total equity, which includes the non-controlling interest which would be that of their partners in the various projects, is $44 billion. Against that $44 billion of non-controlling equity interest is $40 billion of non-recourse debt, and the company has $3.2 billion of cash. Brookfield manages more than just real estate. It manages partnerships investing in power plants, hydroelectric plants and all sorts of interesting assets including timber, which is another form of real estate, and it collects performance fees on those. Many of these partnerships are publicly traded and Brookfield is inherently a better business, because so much of the capital at risk upon which it earns returns is not its own.

Let us compare and contrast those balance sheets with the balance sheet of Simon Properties, which is an outstanding company and very well managed, but it happens to have $6.8 billion of equity, $22.7 billion of debt and $1.1 billion of cash. Its capital structure is not atypical for a real estate investment trust and this, of course, is the largest of them, and it has the largest weight in the iShares Dow Jones Real Estate Index (IYR).

One company in the index, Public Storage, is a real estate anomaly and is worth commenting upon. It is obviously involved in storage centers, which is a very different type of real estate asset; its tenants use the properties only for storage, which means the company's capital expenditure demands are very light in relation to typical pieces of real estate. Its capital structure is $8.7 billion of equity and only $112 million of debt. There is a certain amount of preferred equity outstanding and the indenture of the preferred is that the company may not exceed 50% debt without the consent of the preferred shareholders. Since the debt is not even 2% it is fairly minimal.

Public Storage doubled its revenue in the past decade largely by acquisition and it accomplished that via judicious issuance of shares. Public Storage now is valued at 21x FFO and in the last 10 years the company has increased shares outstanding by 34%. It is a business with low volatility that has been rewarded with a high multiple that the company has used, via its equity currency, to increase its revenue.

Even given that, CBRE has outperformed Public Storage, although Public Storage over a longer period of time is one of the outstanding real estate investment trusts. Kennedy Wilson has essentially matched Public Storage since it became listed in late 2007 and Brookfield has performed well. Even comparing the managers to a unique and extraordinarily well-managed real estate investment trust, the managers did better. Those companies are stable, not necessarily in stock price, but very stable in a business sense. The capital really cannot leave, the fees keep being paid, and the debt is usually not recourse to the company or, to the extent that it is recourse, it is usually kept at a manageable level. There are not enough examples of such companies to make an exchange-traded fund. There are, however, enough examples to add to a portfolio that wishes to hold real estate.



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# *Facts & Figures*

## MORTGAGE DEBT CONTRACTION

Let us look at mortgage debt outstanding for the last five years.[1] At the end of 2009, the total mortgage debt outstanding was $14.391 trillion, according to the Federal Reserve. At the end of the second quarter of 2013, the most recent data available, that number was $13.002 trillion. That is a contraction completely without precedent.

Table 2: Mortgage Debt Outstanding

| *(year-end except where noted)* | *($ in trillions)* |
|---|---|
| 2009 | $14.391 |
| 2010 | $13.738 |
| 2011 | $13.411 |
| 2012 | $13.156 |
| Q2 2013 | $13.002 |

*Source: Federal Reserve*

It is worth comparing that contraction to the mortgage expansion that occurred from 2004 to 2008. According to the Federal Reserve, in December 2004, mortgage debt in the United States was $10.662 trillion. In December 2008 it was $14.724 trillion. That increase was nearly 40% in 48 months—also completely without precedent.

One change that made the last decade very volatile was in the risk structure of the real estate industry. Real estate owned on behalf of individuals changed radically in two ways. From 2004 to 2008, the risk posture of real estate—probably the most important asset class in the country—increased dramatically and, subsequent to December 2008, it has been decreasing dramatically. Due to its importance to the economy and to the real estate industry, what happens with real estate owned by individuals should have implications for volatility in general, especially as reflected in the VIX index.[2]

Here is a statistic on bond trading volume that I think is interesting. This is from the Securities Industry and Financial Markets Association (SIFMA). When you consider trading volume, July was an important month, because there was so much turmoil in the bond market. As you can see in the following table, the numbers were higher in

[1] This topic was also discussed in the Industry Thoughts and Facts & Figures sections of the *Fixed Income Contrarian Compendium* September 2013 edition..
[2] The CBOE Volatility Index® measures market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Colloquially known as the 'fear index,' it is considered to be a barometer of investor sentiment and market volatility.



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September, but not significantly. The July trading volume in United States Treasury issues was $514.5 billion and agency mortgage-backed securities was $205.8 billion.

Table 3: Trading Volume in Bonds

| *($ in billions)* | July 2013 | August 2013 | September 2013 |
|---|---|---|---|
| Municipal | $10.7 | $12.0 | $12.2 |
| Treasury | 514.5 | 481.0 | 571.4 |
| Agency MBS | 205.8 | 182.5 | 222.5 |
| Non-Agency MBS | 3.3 | 2.9 | 4.0 |
| ABS | 1.0 | 1.4 | 1.4 |
| Corporate Debt | 16.0 | 13.2 | 20.5 |
| Federal Agency Securities | 4.9 | 5.2 | 5.4 |

*Source: SIFMA*

Mortgage-backed securities volume in July, both agency and non-agency, were $4.3 billion. The trading volume in municipal bonds—and this is all municipal bonds, whatever their rating, or maturity, whether they were issued for states, general obligations, municipalities, projects, or even Build America Bonds—was $10.7 billion in July. If one divides that $10.7 billion by the number of trading days in the month, you see how low the volume was. Then think of that number in the context of how many issues there are. The July total amount of par value outstanding in municipal bonds in the United States—not the market value, although they are not radically different numbers—was $3.728 trillion. In other words, in a given month, less than 1% of all municipal bonds even traded.

The par amount of all the corporate debt in the United States was $9.236 trillion. Measured in dollars, the trading volume of all corporate debt in the U.S. for the month of July was $16 billion. That is 0.17% of all the corporate bonds traded in that month.

This data would substantiate the point of view that it is extraordinarily difficult to find corporate bonds to buy. We know, of course, that some issuers are more liquid than others, and the problem is not merely the control of convexity. The problem is finding a substantial amount of supply that would give you a reasonable rate of return. It cannot even be found. That is really extraordinary, and it is a big problem.

## THE MUNI PREMIUM

Let us look at another set of numbers. The first table shows yields on the Bond Buyer 20-Bond Municipal Bond Index from July 2011 to September 2013. These bonds have 20-year maturities and are of mixed quality. The yield, every month, is the average yield for all the municipal bonds. As you can see in the following table, in September, that yield was 4.79%.



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Table 4: Yields on Bond Buyer 20-Bond Index of Municipal Bonds

| Month/Year | Yield | Month/Year | Yield | Month/Year | Yield |
|---|---|---|---|---|---|
| Jan-11 | 5.28% | Jan-12 | 3.68% | Jan-13 | 3.60% |
| Feb-11 | 5.15% | Feb-12 | 3.66% | Feb-13 | 3.72% |
| Mar-11 | 4.92% | Mar-12 | 3.91% | Mar-13 | 3.96% |
| Apr-11 | 4.99% | Apr-12 | 3.95% | Apr-13 | 3.92% |
| May-11 | 4.59% | May-12 | 3.77% | May-13 | 3.72% |
| Jun-11 | 4.51% | Jun-12 | 3.94% | Jun-13 | 4.27% |
| Jul-11 | 4.52% | Jul-12 | 3.78% | Jul-13 | 4.56% |
| Aug-11 | 4.02% | Aug-12 | 3.74% | Aug-13 | 4.82% |
| Sep-11 | 4.01% | Sep-12 | 3.73% | Sept-13 | 4.79% |
| Oct-11 | 4.13% | Oct-12 | 3.65% | | |
| Nov-11 | 4.05% | Nov-12 | 3.46% | | |
| Dec-11 | 3.95% | Dec-12 | 3.48% | | |

*Source: Federal Reserve*

Let us use the 20-year Treasury bonds to compare bonds with like maturities. The average yield for 20-year Treasury bonds was 3.53% in September 2013. Looking at both numbers you see municipal bonds in September were trading at a yield premium of 126 basis points above Treasury bonds.

Table 5: Average Yields on 20-Year Treasury Bonds

| Month/Year | Yield | Month/Year | Yield | Month/Year | Yield |
|---|---|---|---|---|---|
| Jan-11 | 4.28% | Jan-12 | 2.70% | Jan-13 | 2.68% |
| Feb-11 | 4.42% | Feb-12 | 2.75% | Feb-13 | 2.78% |
| Mar-11 | 4.27% | Mar-12 | 2.94% | Mar-13 | 2.78% |
| Apr-11 | 4.28% | Apr-12 | 2.82% | Apr-13 | 2.55% |
| May-11 | 4.01% | May-12 | 2.53% | May-13 | 2.73% |
| Jun-11 | 3.91% | Jun-12 | 2.31% | Jun-13 | 3.07% |
| Jul-11 | 3.95% | Jul-12 | 2.22% | Jul-13 | 3.31% |
| Aug-11 | 3.24% | Aug-12 | 2.40% | Aug-13 | 3.49% |
| Sep-11 | 2.83% | Sep-12 | 2.49% | Sept-13 | 3.53% |
| Oct-11 | 2.87% | Oct-12 | 2.51% | | |
| Nov-11 | 2.72% | Nov-12 | 2.39% | | |
| Dec-11 | 2.67% | Dec-12 | 2.47% | | |

*Source: Federal Reserve*

There is a reason municipal bonds are trading at such a premium above Treasurys. Part of it is the bankruptcy of Detroit, but most municipal bonds are not going to default so that default plays a very small role. The main reason is that the Obama Administration is



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seriously proposing taxing municipal bonds, and it is conceivable that it might happen. As anyone can see at a glance from the numbers, the market has more or less discounted that possibility. It is not 100% probable that municipal bonds will be taxed and, even if it were to happen, they might not be taxed at ordinary income rates, but the market has fully priced that in.

Consider the implications. Either municipal bonds will be taxed, an outcome that the market has already discounted, or they will not be taxed, which the market has not discounted. Therefore, a not-unreasonable trade would be to swap municipal bonds against Treasury bonds. In a given maturity class you would have hedged out all the interest rate risk and hedged out the credit risk by diversification. Therefore, there is only one variable left that is uncertain: either it will be taxed or it will not be taxed. If it would be taxed, the return would be a very small positive rate of return, but one that would be superior to a money market fund rate of return and with no greater risk, because you would not be exposed to maturity risk. If there is no tax, there would be a big move in rates, because municipals might trade at something like 70% of the Treasury yield.

The reason people do not pay attention to that situation is because institutions do not buy municipal bonds; they are tax exempt. It never occurs to those institutions that there is money to be made in municipal bonds. Municipal bonds are essentially dominated by wealthy individuals who obviously feel under stress. Therefore, it is ripe for a major institutional trade. It is not something that is replicatable and it is not an ongoing investment strategy. It is merely a stratagem or a tactic if one prefers, that an institution could undertake and thereby possibly make a substantial amount of money in the bond market with very minimal risk. With some degree of patience, a lot of money could be put to work.



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# *Featured Companies*

## SMITH & WESSON HOLDING CORP. (SWHC)

Smith & Wesson, the firearms company, has a $650 million market capitalization. It trades at 7.9x the earnings that are likely to be realized in the current fiscal year, which commenced in April. It is worth noting that the Smith & Wesson brand is 160 years old. The company has other brands such as Thompson Performance Center and one that unfortunately has increasing popularity among firearms enthusiasts, the M&P brand of polymer guns. Polymer guns are not detectable by standard metal detectors, which explains their popularity. Unfortunately for the nation, but fortunately for Smith & Wesson and its shareholders, firearms are a growth business in this country.

In fiscal year 2004, Smith & Wesson generated $119 million of sales. It may be surprising to learn that in the most recently completed fiscal year, the company had $587 million of sales, meaning revenues have been growing at 19.5% per year. It is very rare to witness a company with such a substantial growth rate trading at a single-digit multiple. It is also worth noting that 89.1% of the revenue of this company comes from individuals, 6.9% from government agencies that require firearms, and a growing 4% from the so-called international market.

Table 6: Smith & Wesson Revenue

| *(April 30 Fiscal Year)* | *($ in millions)* |
|---|---|
| 4/13 | $587 |
| 4/12 | $412 |
| 4/11 | $392 |
| 4/10 | $406 |
| 4/09 | $334 |
| 4/08 | $296 |
| 4/07 | $236 |
| 4/06 | $160 |
| 4/05 | $125 |
| 4/04 | $119 |

*Source: Company reports*

Since there have been various incidents, there is always the threat of some type of government regulation to prohibit gun sales in some instances. That prohibition may or may not happen and it is very difficult to predict. However, apart from that, investors have recently been disturbed, because production at Smith & Wesson has been at 100% of capacity. In other words, the company cannot fill orders fast enough, and towards that end needs to increase capacity. In the second quarter, which is the current quarter, the company



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will operate only 50 production days as opposed to its normal 62 to 63, because of scheduled investments in plants and equipment. Consequently, second quarter revenue will experience some degree of weakness, and that is understandable, and the stock declined on that announcement. Here is a company operating at full capacity that needs to increase capacity but in the short run must decrease production to achieve a capacity increase, and its share price declines on that news.

The company also announced that it will spend $84 million to repurchase shares. That is a substantial number if you consider that the company's market capitalization is only $665 million. The company has $146 million of cash on the balance sheet, $100 million in notes payable, and $194 million of equity, so it is able to spend $84 million on a share buyback.

We know the market is not overly concerned about the threat of government regulation, which we know by looking at the valuation of Sturm, Ruger, another gun company. Sturm, Ruger trades at nearly double the multiple of Smith & Wesson, and Sturm, Ruger has grown at a lower rate over the last decade.

It is also worth noting that Alliant Techsystems, a defense company specializing in ammunition and rocket engines, just bought two arms makers: Bushnell is one and Savage Arms is the other. Therefore it is not inconceivable that Smith & Wesson could be acquired.

## BIGLARI HOLDINGS INC. (BH)

The next company is Biglari Holdings, with a $724 million market capitalization. This is, effectively, an investment company and a management company in the world of restaurants. It is run by Sardar Biglari.

The company has two primary assets. It owns 20% of publicly traded Cracker Barrel, the restaurant chain, which is worth about $518 million, or roughly three-quarters of the market capitalization of Biglari. It also owns Steak 'n Shake restaurants and Western Sizzlin restaurants. Those two restaurant chains generate $700 million of revenue and they are growing. A year ago the company had 162 franchises and, in the most recent year, it had 187 franchises.

Apropos of franchises, it is worth noting that the company is in litigation with a few franchisees because those franchisees did not want to adhere to company policy on pricing and wanted to design their own prices. Biglari Holdings objected, saying that was a violation of the franchise agreement, and withdrew its franchise charter. The issue for the judicial branch of the government to decide is whether or not the restaurant owners will get to keep their franchise charter and use of the names Steak 'n Shake and Western Sizzlin. From the point of view of the investment community, the issue is not so much that prices might be different, but whether or not this company can take back its franchise name.



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Since the restaurateurs are fighting to keep the name, obviously that is a sign that the name has franchise value.

In any event, one effectively is buying that franchise business for $140 million. It is worth noting that the company reduced its share count by 15% over the last four years and recently Sardar Biglari purchased stock personally. The company has $23 million of cash, $112 million of debt, and its restaurant business now runs at $6 million of operating income per quarter.

You can look at the company in several ways. The market sees a company with a $724 million market capitalization, that owns $518 million worth of Cracker Barrel stores, and has $112 million of debt. If you add $518 million of Cracker Barrel stores and $23 million of cash you get $541 million and, in an enterprise value sense, there is $112 million of debt against that. So how does one value the restaurants? If one values the $24 million of annualized operating income at 12x, the restaurant business is worth $288 million. That may or may not be a sensible valuation but it is sufficiently modest to allow for profit potential. It is also notable that Sardar Biglari has done very well with his investment in Cracker Barrel, which is essentially three-quarters of the value of the entire investment.

Sardar Biglari, however, recently failed to obtain two board seats, and he may launch a proxy fight against Cracker Barrel. Cracker Barrel has been a great stock, but it still has only a 4.8% net profit margin. Bob Evans Farms, a comparable company, has a profit margin of 6%. Sardar Biglari's aim is to pressure the company to increase its profit margin. If he can achieve that, it will be a very good investment. He is expanding his own business, and it might be that a valuation of 12x operating income is somewhat low.

*Q: Are you concerned that the board and the management of Cracker Barrel intensely dislike Mr. Biglari?*

*A:* The stated opposition, such as it is, to Mr. Biglari is that he operates a competing chain, which is seen as an inherent conflict of interest that disqualifies him from board membership. Whether or not that is a legitimate position is open for discussion, because not infrequently people become members of boards because they have expertise in that industry and they actually do compete to some degree. We have seen examples of that.

Whether Mr. Biglari can either pressure or, if he were a board member, creatively enhance the margins of Cracker Barrel is an open question. We really do not know. From the shareholder point of view, however, Mr. Biglari has been a positive influence to the degree that Cracker Barrel has increased its margins and has engaged in some shareholder-friendly actions. If Mr. Biglari were to repatriate his capital because Cracker Barrel buys him out, we can only presume the capital would be redeployed in some other type of restaurant business, hopefully for a good end. He certainly has been a good operator of his own restaurant chains and I do not think anyone would dispute that proposition.



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## DENNY'S CORP. (DENN)

Denny's only has a $585 million market capitalization. Its franchise speaks for itself. Denny's has been adversely affected over many years by the fact that it carried a lot of debt for a very long time. Essentially it ceased investing in its franchises, and the franchise itself began to deteriorate. Over the last five years, however, the company has changed its business model completely: It will be merely an operator of franchises and not own very many stores. At the moment it has 1,690 franchised restaurants; 90% of them are operated on the franchise model and 10% are company-owned. The company intends to be virtually 100% non-owned, keeping only a handful of restaurants, probably for experimentation purposes. The franchise model has a 66% operating margin and, at the moment, it generates $135 million of annual revenue.

Assuming no other restaurant revenue and no expansion of the franchise, the following figures would apply. The company has $135 million of revenue and a 66% operating profit, which provides $89 million in profits. The question is: How much corporate expense will there be? This particular estimate assumes $35 million, which seems high, but if one uses $35 million of estimated corporate expense, that gives you $54 million of pre-tax income. Assuming $10 million of annual interest expense, there is $44 million of pre-tax income and $29 million of after-tax income. That would give Denny's a 17.3 P/E ratio, which would be about average for a company of its type.

There are, however, several factors to take into account. First, it is quite plausible that the $35 million of corporate expense is too high. Second, 10% of its owned stores, or 169, remain to be franchised. Assuming equality in revenue, that brings us closer to $150 million in revenue, giving a much higher after-tax profit. Most important in the franchise model, the cash flow is of no use from the point of view of capital expenditures, because no capital expenditure is required. That means cash flow is all available, or largely all available, for repurchase of shares. With that sum at its current valuation, the company could repurchase more than five million shares every year. In 18 years there would be one share outstanding even if the business does not grow.

One of the problems with the company is there is virtually no equity, which is the residue of its highly leveraged days, and $153 million of debt. In the last several years the company has been reducing the number of its shares and repaying its debt. Just since 2012, for example, the company repurchased 12 million of its shares. It is also making the same sorts of efforts that Wendy's made in the early stages of its transformation, which include improving its menu, reviving the franchise model, and issuing new franchises. Denny's issued 40 new franchises in 2012 and, most important, it is no longer existentially challenged. Clearly, it bears a lot of similarity to the characteristics of Wendy's 24 months ago, and it could have a similar experience. It is also not that different from the model used by Burger King Worldwide (BKW), except that Denny's is essentially an American company.



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## TELETECH HOLDINGS INC. (TTEC)

Teletech is a software company with a $1.2 billion market cap. It defines its business as tracking the customer experience, which is essentially software that tracks customer behavior or measures the response of customers in real time. For example, an automobile dealership dealing with a customer complaint must marshal the sales staff, the service team, and possibly the manufacturer to solve the customer problem. Furthermore, the local dealer must be able to communicate in some organized manner with these disparate elements to address a customer complaint within an acceptable timeframe and provide data to management that this task has been completed satisfactorily.

In many cases, Teletech's data connects with Salesforce.com. The difference between Teletech and Salesforce.com is that Teletech focuses much more on the back office as opposed to the front office sales staff. This company probably looks with great envy upon Salesforce.com or a company like Workday that has had very great success in selling systems. Teletech has not had great success and, in the last six or seven years, essentially has failed to grow revenue. That is primarily because a company like Salesforce.com has superior resources and beats Teletech into any reasonable product line extension at a price that is almost always below cost, but Teletech will not sell software below cost. It has a satisfied customer base, but it really cannot expand the usage very much.

The company trades at 15x earnings and interestingly enough for a software company, the management owns 62% of the company. It has $150 million of cash and $110 million of debt. It has repurchased a substantial amount of its shares in the last several years and, just in the last six months, it repurchased $31 million of stock. The float of this company is only $450 million so, effectively, this company has retired roughly 7% of its float in six months. At the current rate, which the company can easily sustain, there will be no float in 7 1/4 years.

The likely fate of this company is that it is going to be sold to one of the larger emerging software companies. For a company like Salesforce.com this would be an interesting product line extension with the potential for achieving an economy of scale, given the programming and resources that Salesforce.com brings to bear on its business. Teletech is a unique company that is not likely to be publicly traded several years hence.



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# *Post-Musings*

## LIQUIDATION: RETAIL HOLDINGS N.V. (RHDGF)

Liquidation is a circumstance in which a company decides to sell all its assets and distribute the cash to shareholders. Generally speaking, because the time period of liquidation is indeterminate, liquidations usually sell at pretty substantial discounts to an objectively derived asset value and, because the holders of liquidations tend to be patient, they are not very liquid or they are not first-order liquid companies. In any event, there is one liquidation worth studying: Retail Holdings N.V., which is based in Curacao.

Retail Holdings' primary asset is ownership of 54.1% of Singer Asia and it will either distribute its interest in Singer Asia or it will sell it. It is more likely to sell it. It also has some seller notes arising from the sale of the Singer worldwide sewing business and trademark in 2004. The notes have a face amount of $22.7 million as of June 30, 2013, a 12% interest rate, and maturity of September 2018 (recently extended from February 2014).

Singer Asia has five divisions: Singer Bangladesh, Singer India, Singer Pakistan, Singer Sri Lanka and Singer Thailand. Some are publicly traded in their respective countries, such as Singer Thailand, and as you can see in the following table, Singer Thailand has a 20x price-to-earnings ratio.

Table 7: Singer Asia

| Company | P/E |
|---|---|
| Singer Bangladesh | 20.73 |
| Singer India | 0.78 |
| Singer Pakistan | 32.54 |
| Singer Sri Lanka | 14.34 |
| Singer Thailand | 19.28 |

*Source: Bloomberg*

You might be tempted to think of Singer sewing machines in connection with this company, but that is not its business. The bigger business of Singer Asia is that it operates retail stores that sell sewing paraphernalia to individuals—anything from needles and thread to more sophisticated devices like pattern-cutting machines—as well as consumer appliances. It is basically a retailer, operating in nations where a lot people sew their own clothes.

What is the ultimate liquidation value of Retail Holdings? We know that its proportionate share of the earnings of Singer Asia is $12 million and we know it has $104 million market



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capitalization and $1.6 million of cash. If we subtract the sum of $15 million (2/3 face amount of the $22.7 million par amount of the seller notes) and $1.6 million from the market capitalization, effectively we value the earnings of Singer Asia at a multiple of roughly 7.3x. However, the publicly traded debt, to the extent that it is available, suggests that the market values it higher—maybe even substantially higher. It could be a unique investment and worth being thought of in that sense.



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# *Updates on Past Ideas*

## OAKTREE CAPITAL GROUP, LLC (OAK)

*Recommended on 7/12/12 at $35.65*
*Current Price: $56.86*
*Market Cap: $8.6 billion*

Since the original purchase recommendation 15 months ago, Oaktree Capital, led by owner-operator Howard Marks, has returned approximately 77.5%, while the S&P 500 has returned 30.4% (both figures inclusive of dividends). Yet, even with this considerable appreciation, this alternative investment manager still appears undervalued. Oaktree, which has distributed $3.80 per Class A unit over the past year (equivalent to a 6.7% yield at the current unit price), trades at only 12.0x adjusted net income (ANI) for 2012. However, in the first half of 2013, ANI increased *87%* over the first half of last year, to $632.7 million from $339.1 million. ANI from 2008 through the first half of 2013 is provided here:

Oaktree Adjusted Net Income

| | | |
|---|---|---|
| 2008 | $ 207.3 | million |
| 2009 | 675.6 | |
| 2010 | 763.9 | |
| 2011 | 428.4 | |
| 2012 | 717.3 | |
| ***1st Half 2013*** | ***632.7*** | |

The Oaktree valuation appears particularly attractive given the firm's long history of profitability. Its ANI has been positive since inception in 1995, and there has been only one recorded quarter in which Oaktree's net income was negative (the fourth quarter of 2008). In addition, the firm has recorded 15 consecutive years of incentive fee income, including 41 of its last 42 quarters. In the first half of 2013, incentive fee income increased 247% over the first half of 2013, as shown here:



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Oaktree Sources of Revenue

| *(in millions)* | *6 months ended June 30,* 2013 | 2012 | *% change* |
|---|---|---|---|
| Management fees | $ 366.7 | $ 380.1 | *(3.5)%* |
| Incentive income | 665.2 | 191.7 | *247.0%* |
| Investment income | 116.6 | 87.6 | *33.1%* |
| Total revenue | $ 1,148.5 | $ 659.4 | *74.2%* |

Oaktree's flagship distressed products have generated gross IRRs of approximately 23% since inception while, across all closed-end products, the firm has attained average IRRs of 19%. Currently, approximately $32 billion of its $76 billion of assets under management is subject to performance fees. Thus, assuming the firm can continue to produce annualized returns of around 19%, substantial performance fees will continue to be generated. Of course, the company also earns base management fees as well as investment income from its own fund investments. Therefore, despite the 77.5% return since the original recommendation, Oaktree is re-recommended for purchase.

## THE WENDY'S COMPANY (WEN)

*Recommended on 4/23/12 at $4.83*
*Current Price: $8.49*
*Market Cap: $3.3 billion*

Wendy's was recommended in April 2012 at a price of $4.83. The shares have since returned 83.9%, while the S&P 500 has returned 26.4% (both figures inclusive of dividends). At the time of the recommendation, Wendy's had recently informed investors of a plan to transform its restaurants from a traditional fast food model to a slightly more upscale "fast casual" model. The company's owner-operators, Nelson Peltz and Peter May, aimed to generate long-term returns for shareholders by increasing free cash flow from the remodeled restaurants, and subsequently use that free cash to expand internationally. With an almost non-existent presence outside North America, the belief was that Wendy's could achieve significant revenue growth by taking the lead of McDonald's and Yum! Brands, which now generate the majority of their revenue outside the U.S.

A year and a half later, the investment thesis remains intact, as Wendy's has begun its restaurant transformation and the early feedback from the remodeled locations is positive. Through the first half of 2013, restaurants that were upgraded to the fast casual model in 2012 have experienced, on average, a 20% increase in sales. Wendy's is targeting a total of 314 restaurant upgrades in 2013, and 1,344 cumulatively by the end of 2015 (out of a total



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of 6,560). In late 2012, the company initiated an incentive program for franchisees that gives them up to $100,000 to complete a restaurant upgrade.

In 2012, the company's net profit margin was 0.3%. In the first half of 2013, this increased to 1.2%. An objective of Messrs. Peltz and May is to increase the profitability of Wendy's to the level of competing fast food chains, which generate net margins ranging from 8% (Panera Bread) to 20% (McDonald's). If the company can achieve a combination of revenue growth and increased profitability, returns to shareholders in the coming years, even from the current share price of $8.49, could be substantial.



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## WEALTH INDEX (Ticker: RCH Index)

*As of June 30, 2013*

| *Annualized Total Return* | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years | 15 Years | 20 Years | Since Incep. 1991 - Jun '13 |
|---|---|---|---|---|---|---|---|---|
| Wealth Index | 26.18% | 21.54% | 13.96% | 10.57% | 12.20% | 8.83% | 11.90% | 13.08% |
| S&P 500 | 20.60% | 18.45% | 7.01% | 5.66% | 7.30% | 4.24% | 8.66% | 9.53% |
| S&P 500 Eq. Wgt. | 26.46% | 19.90% | 10.49% | 7.50% | 10.20% | 7.83% | 10.63% | 11.98% |
| Russell 3000 | 21.46% | 18.63% | 7.25% | 5.84% | 7.81% | 4.74% | 8.76% | 9.83% |
| Russell 2000 | 24.21% | 18.67% | 8.77% | 5.82% | 9.53% | 6.60% | 8.88% | 10.83% |
| Excess Return vs. S&P 500 | 5.58% | 3.09% | 6.94% | 4.91% | 4.90% | 4.59% | 3.24% | 3.55% |
| Excess Return vs. S&P 500 Eq. Wgt. | -0.28% | 1.64% | 3.46% | 3.07% | 2.00% | 1.00% | 1.26% | 1.10% |
| Excess Return vs. Russell 3000 | 4.71% | 2.91% | 6.71% | 4.73% | 4.39% | 4.08% | 3.14% | 3.25% |
| Excess Return vs. Russell 2000 | 1.97% | 2.87% | 5.19% | 4.75% | 2.67% | 2.23% | 3.01% | 2.25% |

**Note: Calculated Using Total Returns*

| *Risk Adjusted Return* | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years | 15 Years | 20 Years | Since Incep. 1991 - Jun '13 |
|---|---|---|---|---|---|---|---|---|
| Wealth Index | 3.20 | 1.29 | 0.55 | 0.46 | 0.61 | 0.37 | 0.55 | 0.62 |
| S&P 500 | 3.06 | 1.36 | 0.38 | 0.34 | 0.50 | 0.26 | 0.57 | 0.64 |
| S&P 500 Eq. Wgt. | 3.59 | 1.28 | 0.47 | 0.37 | 0.58 | 0.42 | 0.63 | 0.73 |
| Russell 3000 | 3.11 | 1.31 | 0.38 | 0.34 | 0.51 | 0.29 | 0.57 | 0.65 |
| Russell 2000 | 2.62 | 1.00 | 0.36 | 0.27 | 0.48 | 0.31 | 0.45 | 0.56 |

**Note: Calculated As Annualized Total Return Divided By Annualized Total Return Volatility (Uses Monthly Total Returns)*

| *Information Ratio* | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years | 15 Years | 20 Years | Since Incep. 1991 - Jun '13 |
|---|---|---|---|---|---|---|---|---|
| Wealth Index vs. S&P 500 | 1.46 | 0.57 | 0.66 | 0.51 | 0.56 | 0.40 | 0.31 | 0.34 |
| Wealth Index vs. S&P 500 Eq. Wgt. | (0.12) | 0.38 | 0.58 | 0.52 | 0.35 | 0.09 | 0.13 | 0.12 |
| Wealth Index vs. Russell 3000 | 1.44 | 0.59 | 0.70 | 0.54 | 0.55 | 0.39 | 0.32 | 0.34 |
| Wealth Index vs. Russell 2000 | 0.49 | 0.43 | 0.58 | 0.60 | 0.36 | 0.18 | 0.27 | 0.21 |

**Note: Calculated As Annualized Excess Total Return Divided By Annualized Excess Total Return Volatility (Uses Monthly Excess Total Returns)*

| *Wealth Index Batting Average* | Roll. 1 Year | Roll. 3 Year | Roll. 5 Year |
|---|---|---|---|
| vs. S&P 500 | 59.85% | 68.09% | 69.19% |
| vs. S&P 500 Eq. Wgt. | 57.14% | 62.55% | 57.35% |
| vs. Russell 3000 | 62.55% | 68.51% | 75.36% |
| vs. Russell 2000 | 60.23% | 65.11% | 72.51% |

**Note: Calculated Using Total Returns*

| *Annualized Volatility* | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years | 15 Years | 20 Years | Since Incep. 1991 - Jun '13 |
|---|---|---|---|---|---|---|---|---|
| Wealth Index | 8.18% | 16.67% | 25.44% | 22.79% | 20.13% | 23.94% | 21.78% | 21.18% |
| S&P 500 | 6.74% | 13.57% | 18.42% | 16.71% | 14.58% | 16.15% | 15.15% | 14.78% |
| S&P 500 Eq. Wgt. | 7.36% | 15.59% | 22.42% | 20.05% | 17.61% | 18.44% | 16.87% | 16.47% |
| Russell 3000 | 6.90% | 14.20% | 19.18% | 17.32% | 15.17% | 16.58% | 15.43% | 15.04% |
| Russell 2000 | 9.24% | 18.60% | 24.07% | 21.59% | 19.74% | 21.40% | 19.61% | 19.21% |

**Note: Calculated Using Total Returns*

| *Annualized Tracking Error* | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years | 15 Years | 20 Years | Since Incep. 1991 - Jun '13 |
|---|---|---|---|---|---|---|---|---|
| vs. S&P 500 | 3.81% | 5.44% | 10.49% | 9.71% | 8.81% | 11.33% | 10.53% | 10.41% |
| vs. S&P 500 Eq. Wgt. | 2.33% | 4.30% | 5.98% | 5.95% | 5.65% | 10.78% | 9.83% | 9.55% |
| vs. Russell 3000 | 3.27% | 4.91% | 9.58% | 8.83% | 7.97% | 10.54% | 9.74% | 9.59% |
| vs. Russell 2000 | 4.04% | 6.63% | 8.93% | 7.97% | 7.52% | 12.15% | 11.17% | 10.76% |

**Note: Calculated Using Total Returns*

| *Wealth Index Beta* | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years | 15 Years | 20 Years | Since Incep. 1991 - Jun '13 |
|---|---|---|---|---|---|---|---|---|
| vs. S&P 500 | 1.08 | 1.17 | 1.29 | 1.26 | 1.27 | 1.35 | 1.29 | 1.28 |
| vs. S&P 500 Eq. Wgt. | 1.07 | 1.03 | 1.11 | 1.10 | 1.10 | 1.17 | 1.16 | 1.16 |
| vs. Russell 3000 | 1.09 | 1.13 | 1.26 | 1.24 | 1.24 | 1.34 | 1.30 | 1.29 |
| vs. Russell 2000 | 0.80 | 0.84 | 0.99 | 0.99 | 0.95 | 0.96 | 0.95 | 0.95 |

**Note: Calculated Using Total Returns*

| *Calendar Year Total Returns* | Wealth Index | S&P 500 | S&P 500 Eq. Wgt. | Russell 3000 | Russell 2000 | ER v. SP500 | ER v. SP500 EW | ER v. R3000 | ER v. R2000 |
|---|---|---|---|---|---|---|---|---|---|
| 1991 | 44.25% | 30.47% | 35.51% | 33.68% | 46.04% | 13.78% | 8.73% | 10.57% | -1.80% |
| 1992 | 20.20% | 7.62% | 15.63% | 9.59% | 18.41% | 12.58% | 4.56% | 10.61% | 1.79% |
| 1993 | 3.38% | 10.08% | 15.12% | 10.88% | 18.88% | -6.70% | -11.75% | -7.50% | -15.50% |
| 1994 | 0.33% | 1.32% | 0.95% | 0.19% | -1.82% | -0.99% | -0.62% | 0.14% | 2.15% |
| 1995 | 31.31% | 37.58% | 32.03% | 36.80% | 28.45% | -6.27% | -0.72% | -5.49% | 2.86% |
| 1996 | 23.09% | 22.96% | 19.02% | 21.82% | 16.49% | 0.13% | 4.06% | 1.27% | 6.59% |
| 1997 | 27.31% | 33.36% | 29.05% | 31.78% | 22.36% | -6.06% | -1.74% | -4.48% | 4.94% |
| 1998 | 24.95% | 28.58% | 12.19% | 24.14% | -2.55% | -3.63% | 12.76% | 0.81% | 27.49% |
| 1999 | 44.68% | 21.04% | 12.03% | 20.90% | 21.26% | 23.64% | 32.66% | 23.78% | 23.43% |
| 2000 | -19.16% | -9.10% | 9.64% | -7.46% | -3.02% | -10.06% | -28.80% | -11.70% | -16.14% |
| 2001 | -10.80% | -11.89% | -0.39% | -11.46% | 2.49% | 1.08% | -10.41% | 0.65% | -13.29% |
| 2002 | -15.49% | -22.10% | -18.18% | -21.54% | -20.48% | 6.61% | 2.69% | 6.05% | 4.99% |
| 2003 | 45.41% | 28.68% | 40.97% | 31.06% | 47.25% | 16.72% | 4.44% | 14.35% | -1.85% |
| 2004 | 17.97% | 10.88% | 16.95% | 11.95% | 18.33% | 7.09% | 1.02% | 6.02% | -0.36% |
| 2005 | 3.30% | 4.91% | 8.06% | 6.12% | 4.55% | -1.61% | -4.76% | -2.82% | -1.25% |
| 2006 | 22.61% | 15.79% | 15.80% | 15.71% | 18.37% | 6.81% | 6.81% | 6.89% | 4.24% |
| 2007 | 1.73% | 5.49% | 1.53% | 5.14% | -1.57% | -3.76% | 0.20% | -3.41% | 3.30% |
| 2008 | -43.67% | -37.00% | -39.72% | -37.31% | -33.79% | -6.68% | -3.95% | -6.37% | -9.89% |
| 2009 | 72.80% | 26.46% | 46.31% | 28.34% | 27.17% | 46.33% | 26.49% | 44.46% | 45.62% |
| 2010 | 31.51% | 15.06% | 21.91% | 16.93% | 26.85% | 16.45% | 9.60% | 14.58% | 4.65% |
| 2011 | 5.11% | 2.11% | -0.11% | 1.03% | -4.18% | 3.00% | 5.22% | 4.09% | 9.29% |
| 2012 | 13.53% | 16.00% | 17.65% | 16.42% | 16.35% | -2.48% | -4.13% | -2.89% | -2.82% |
| YTD 2013 | 15.43% | 13.82% | 16.17% | 14.06% | 15.86% | 1.61% | -0.73% | 1.38% | -0.42% |

**Note: Calculated Using Total Returns*

*Source: Horizon Kinetics LLC, International Securities Exchange, Bloomberg*

*See important disclosures for additional information.*

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Horizon Kinetics ISE Wealth Index, Horizon Kinetics ISE Global Wealth Index, and Horizon Kinetics Asia Ex-Japan Wealth Index (the "Indexes") were created in conjunction with the International Securities Exchange, LLC ("ISE"), which operates a leading U.S. options exchange and offers option trading on over 2,000 underlying equity, EFT, index, and FX products.

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Index Constituent Changes: 1. Nuveen Investments Inc (JNC US) was delisted from the US Security Exchange effective 11/14/2007 and has been removed from the index. 2. Alliance Financial Corp (ALNC US) was delisted from US Security Exchange effective 03/11/2013 and has been removed from the index. The divisor has been adjusted accordingly for each of these changes.

**Money Manager Index**

**From Aug 1983 to Sep 2013**

| Year | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Yr. End | Index | Yearly return | Annualized return (since inception) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1983 | | | | | | | | 1.00 | 0.81 | 0.76 | 0.87 | 0.75 | 1983 | 0.75 | (60.5)% | (50.2)% |
| 1984 | 0.75 | 0.71 | 0.70 | 0.66 | 0.67 | 0.67 | 0.61 | 0.83 | 0.79 | 0.76 | 0.67 | 0.65 | 1984 | 0.65 | (13.5)% | (26.5)% |
| 1985 | 0.92 | 0.93 | 0.99 | 0.95 | 1.20 | 1.30 | 1.32 | 1.38 | 1.28 | 1.50 | 1.86 | 2.02 | 1985 | 2.02 | 211.8% | 33.7% |
| 1986 | 2.46 | 2.78 | 2.47 | 2.31 | 2.36 | 2.33 | 2.03 | 2.23 | 1.98 | 2.37 | 2.34 | 2.34 | 1986 | 2.34 | 15.9% | 28.2% |
| 1987 | 3.21 | 3.27 | 3.16 | 2.55 | 2.37 | 2.30 | 2.39 | 2.47 | 2.22 | 1.56 | 1.44 | 1.52 | 1987 | 1.52 | (35.0)% | 9.9% |
| 1988 | 1.80 | 1.87 | 1.78 | 1.79 | 1.69 | 1.94 | 1.92 | 1.96 | 2.01 | 1.97 | 1.95 | 2.07 | 1988 | 2.07 | 36.0% | 14.3% |
| 1989 | 2.42 | 2.37 | 2.54 | 2.63 | 2.64 | 2.64 | 2.93 | 3.12 | 3.07 | 3.05 | 3.23 | 3.26 | 1989 | 3.26 | 57.8% | 20.2% |
| 1990 | 3.12 | 3.15 | 3.53 | 3.06 | 3.47 | 3.45 | 3.30 | 2.70 | 2.68 | 2.40 | 2.52 | 3.02 | 1990 | 3.02 | (7.3)% | 16.1% |
| 1991 | 3.08 | 3.49 | 3.70 | 3.68 | 3.71 | 3.61 | 3.86 | 4.05 | 4.07 | 4.69 | 4.47 | 5.72 | 1991 | 5.72 | 89.4% | 23.0% |
| 1992 | 5.76 | 5.61 | 5.30 | 5.12 | 4.98 | 4.99 | 5.93 | 6.06 | 6.19 | 6.56 | 7.25 | 7.36 | 1992 | 7.36 | 28.6% | 23.6% |
| 1993 | 8.06 | 8.04 | 8.20 | 7.94 | 8.15 | 8.57 | 9.05 | 10.00 | 9.99 | 9.31 | 8.97 | 8.90 | 1993 | 8.90 | 21.0% | 23.4% |
| 1994 | 9.52 | 8.73 | 8.05 | 7.85 | 7.81 | 7.53 | 7.66 | 8.31 | 8.15 | 8.52 | 7.88 | 7.95 | 1994 | 7.95 | (10.6)% | 19.9% |
| 1995 | 7.74 | 8.38 | 8.72 | 8.77 | 9.20 | 9.35 | 9.93 | 10.78 | 11.22 | 10.53 | 10.89 | 10.40 | 1995 | 10.40 | 30.8% | 20.8% |
| 1996 | 11.12 | 11.50 | 11.33 | 11.62 | 11.86 | 12.53 | 11.91 | 12.36 | 13.32 | 14.03 | 14.42 | 15.02 | 1996 | 15.02 | 44.4% | 22.4% |
| 1997 | 16.04 | 16.81 | 15.32 | 17.27 | 18.42 | 20.29 | 22.28 | 21.39 | 25.31 | 24.95 | 24.95 | 25.50 | 1997 | 25.50 | 69.8% | 25.2% |
| 1998 | 25.67 | 29.00 | 29.89 | 30.60 | 28.90 | 30.44 | 27.67 | 21.33 | 21.74 | 25.16 | 27.27 | 25.41 | 1998 | 25.41 | (0.4)% | 23.3% |
| 1999 | 26.00 | 23.71 | 23.92 | 26.77 | 28.94 | 29.74 | 28.78 | 26.74 | 25.89 | 27.73 | 28.54 | 30.55 | 1999 | 30.55 | 20.2% | 23.2% |
| 2000 | 31.07 | 31.19 | 36.01 | 35.60 | 35.20 | 40.32 | 43.58 | 45.75 | 45.62 | 48.69 | 44.05 | 49.84 | 2000 | 49.84 | 63.1% | 25.2% |
| 2001 | 50.23 | 46.41 | 44.27 | 46.96 | 48.90 | 49.98 | 50.67 | 49.70 | 46.47 | 44.81 | 48.04 | 51.91 | 2001 | 51.91 | 4.2% | 23.9% |
| 2002 | 53.62 | 53.74 | 55.11 | 52.52 | 52.83 | 50.48 | 42.58 | 44.92 | 41.54 | 42.66 | 45.78 | 43.17 | 2002 | 43.17 | (16.8)% | 21.4% |
| 2003 | 42.72 | 41.18 | 42.36 | 45.98 | 49.02 | 50.71 | 53.47 | 53.97 | 53.46 | 56.12 | 55.83 | 58.49 | 2003 | 58.49 | 35.5% | 22.1% |
| 2004 | 64.38 | 65.08 | 64.63 | 61.68 | 60.86 | 62.30 | 58.71 | 64.08 | 65.73 | 68.86 | 73.53 | 78.16 | 2004 | 78.16 | 33.6% | 22.6% |
| 2005 | 76.46 | 77.94 | 74.06 | 72.83 | 77.02 | 80.25 | 83.59 | 83.07 | 86.03 | 89.19 | 96.58 | 97.35 | 2005 | 97.35 | 24.6% | 22.7% |
| 2006 | 107.62 | 111.44 | 110.75 | 111.88 | 101.89 | 100.61 | 100.62 | 104.98 | 114.61 | 116.64 | 113.78 | 118.05 | 2006 | 118.05 | 21.3% | 22.6% |
| 2007 | 125.73 | 123.77 | 122.62 | 127.58 | 133.57 | 134.68 | 126.61 | 124.07 | 133.57 | 148.09 | 135.13 | 135.56 | 2007 | 135.56 | 14.8% | 22.3% |
| 2008 | 127.53 | 115.76 | 115.94 | 121.58 | 130.51 | 115.68 | 119.94 | 120.55 | 109.69 | 72.70 | 62.95 | 67.91 | 2008 | 67.91 | (49.9)% | 18.1% |
| 2009 | 57.51 | 51.76 | 65.63 | 79.49 | 85.67 | 90.79 | 99.97 | 101.69 | 107.32 | 107.36 | 110.94 | 115.01 | 2009 | 115.01 | 69.4% | 19.7% |
| 2010 | 106.84 | 110.32 | 118.13 | 114.91 | 100.18 | 88.17 | 97.65 | 89.64 | 103.59 | 108.29 | 108.64 | 119.58 | 2010 | 119.58 | 4.0% | 19.1% |
| 2011 | 122.80 | 128.28 | 127.94 | 127.97 | 126.06 | 121.03 | 115.49 | 104.25 | 91.32 | 102.44 | 103.79 | 103.98 | 2011 | 103.98 | (13.1)% | 17.8% |
| 2012 | 109.46 | 120.12 | 125.37 | 121.64 | 108.44 | 114.12 | 113.56 | 118.33 | 123.18 | 127.91 | 131.76 | 135.00 | 2012 | 135.00 | 29.8% | 18.1% |
| 2013 | 151.20 | 155.13 | 165.52 | 166.55 | 174.89 | 164.20 | 179.01 | 168.47 | 176.12 | | | | 2013 | 176.12 | 30.5% | 18.7% |

| S.No. | Ticker | Name | Amount Invested | Shares Purchased | Date of Investment | Current Index Value |
|---|---|---|---|---|---|---|
| 1 | AMG US Equity | Affiliated Manager | $22,947 | 1,377 | 11/30/1997 | $251,460 |
| 2 | BLK US Equity | BlackRock | $23,205 | 1,658 | 9/30/1999 | $448,556 |
| 3 | WDR US Equity | Waddell & Reed | $27,513 | 1,587 | 3/31/1998 | $81,714 |
| 4 | EV US Equity | Eaton Vance | $2,641 | 3,998 | 1/31/1986 | $155,258 |
| 5 | TROW US Equity | T. Rowe Price | $2,423 | 2,014 | 4/30/1986 | $145,621 |
| 6 | BEN US Equity | Franklin resources | $908 | 1,263 | 4/30/1985 | $191,933 |
| 7 | LM US Equity | Legg Mason | $1,000 | 462 | 8/31/1983 | $15,396 |
| 8 | FII US Equity | Federated Inv | $26,381 | 2,206 | 5/31/1998 | $59,917 |
| 9 | FIG US Equity | Fortress Investment Group | $102,249 | 3,389 | 2/28/2007 | $26,909 |
| 10 | PZN US Equity | Pzena Investment Management | $122,426 | 6,317 | 10/31/2007 | $42,830 |





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Index Constituent Changes: 1.New Star Asset Management (NSAM LN) was delisted from the London Security Exchange effective 03/10/2009 and has been removed from the index. 2. Australia Wealth Management (AUW AU) was delisted from Australian Security Exchange effective 05/18/2009 and has been removed from the index. 3. Bluebay Asset Management/UNI (BBAY LN) was delisted from the London Security Exchange effective 12/20/2010 and has been removed from the index. 4.Everest Financial Group Limited (EFG AU) was delisted from the Australian Security Exchange effective 7/19/2011 and has been removed from the index. 5. RAB Capital Plc (RAB LN) was delisted from the London Security Exchange effective 9/2/2011 and has been removed from the index. 6. Invista Real Estate (INRE LN) was delisted effective 8/13/2012 and has been removed from the index. The divisor has been adjusted accordingly for each of these changes.

**International Money Manager Index**

**From Nov 1986 to Sep 2013**

| Year | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Yr. End | Index | Yearly return | Annualized return (since inception) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1986 | | | | | | | | | | | 1.00 | 1.02 | 1986 | 1.02 | 10.0% | 10.0% |
| 1987 | 1.25 | 1.37 | 1.48 | 1.48 | 1.37 | 1.33 | 1.39 | 1.40 | 1.33 | 0.81 | 0.76 | 0.73 | 1987 | 0.73 | (27.7)% | (23.3)% |
| 1988 | 0.75 | 0.92 | 1.02 | 0.95 | 0.80 | 0.89 | 0.88 | 0.82 | 0.86 | 0.88 | 0.89 | 0.93 | 1988 | 0.93 | 26.4% | (3.4)% |
| 1989 | 1.03 | 1.02 | 1.06 | 1.17 | 1.19 | 1.18 | 1.25 | 1.16 | 1.17 | 1.20 | 1.21 | 1.28 | 1989 | 1.28 | 37.8% | 8.1% |
| 1990 | 1.24 | 1.24 | 1.18 | 1.19 | 1.22 | 1.24 | 1.26 | 1.26 | 1.23 | 1.24 | 1.25 | 1.33 | 1990 | 1.33 | 3.7% | 7.0% |
| 1991 | 1.34 | 1.52 | 1.56 | 1.58 | 1.57 | 1.47 | 1.52 | 1.64 | 1.81 | 1.89 | 1.94 | 1.92 | 1991 | 1.92 | 44.8% | 13.5% |
| 1992 | 2.01 | 1.93 | 1.88 | 2.14 | 2.19 | 2.13 | 2.08 | 1.99 | 1.95 | 1.77 | 1.76 | 1.96 | 1992 | 1.96 | 1.9% | 11.5% |
| 1993 | 1.98 | 2.03 | 2.20 | 2.39 | 2.42 | 2.45 | 2.54 | 3.05 | 3.01 | 3.07 | 3.01 | 3.30 | 1993 | 3.30 | 68.7% | 18.1% |
| 1994 | 3.72 | 3.39 | 3.17 | 3.04 | 2.99 | 2.89 | 3.01 | 3.14 | 3.13 | 3.19 | 3.15 | 3.15 | 1994 | 3.15 | (4.7)% | 15.1% |
| 1995 | 3.07 | 3.12 | 3.28 | 3.41 | 3.56 | 3.59 | 3.87 | 3.76 | 3.76 | 3.77 | 3.70 | 3.73 | 1995 | 3.73 | 18.6% | 15.4% |
| 1996 | 3.76 | 3.85 | 3.70 | 3.79 | 3.96 | 3.90 | 3.75 | 3.96 | 4.16 | 4.47 | 4.90 | 4.86 | 1996 | 4.86 | 30.3% | 16.8% |
| 1997 | 5.11 | 5.37 | 4.99 | 4.96 | 5.43 | 5.94 | 6.57 | 6.32 | 7.45 | 7.24 | 6.80 | 7.19 | 1997 | 7.19 | 47.9% | 19.3% |
| 1998 | 7.12 | 8.05 | 8.78 | 9.25 | 8.95 | 8.74 | 8.91 | 6.67 | 6.08 | 7.01 | 7.51 | 7.71 | 1998 | 7.71 | 7.3% | 18.3% |
| 1999 | 7.99 | 8.21 | 8.68 | 9.07 | 8.71 | 8.61 | 8.63 | 8.43 | 8.47 | 8.79 | 9.80 | 10.79 | 1999 | 10.79 | 39.9% | 19.8% |
| 2000 | 11.23 | 12.27 | 13.95 | 13.50 | 13.73 | 15.39 | 15.85 | 16.82 | 17.07 | 16.31 | 14.43 | 16.76 | 2000 | 14.43 | 33.8% | 20.7% |
| 2001 | 17.42 | 15.88 | 13.46 | 15.14 | 15.84 | 15.15 | 14.21 | 13.61 | 10.77 | 11.43 | 13.90 | 14.12 | 2001 | 14.12 | (2.2)% | 19.1% |
| 2002 | 14.74 | 13.78 | 15.09 | 15.11 | 16.38 | 14.14 | 12.92 | 12.10 | 11.23 | 11.06 | 11.33 | 10.50 | 2002 | 10.50 | (25.6)% | 15.7% |
| 2003 | 10.18 | 9.52 | 9.69 | 10.62 | 12.17 | 13.04 | 13.98 | 15.38 | 16.67 | 17.88 | 18.16 | 18.07 | 2003 | 18.07 | 72.1% | 18.4% |
| 2004 | 20.00 | 22.41 | 29.98 | 35.46 | 26.68 | 30.80 | 25.37 | 25.20 | 23.67 | 23.34 | 27.56 | 31.48 | 2004 | 31.48 | 74.2% | 20.9% |
| 2005 | 32.19 | 32.57 | 31.88 | 27.79 | 27.36 | 29.05 | 30.38 | 31.49 | 33.39 | 32.24 | 32.95 | 37.18 | 2005 | 37.18 | 18.1% | 20.8% |
| 2006 | 41.01 | 40.97 | 43.69 | 46.45 | 42.39 | 41.58 | 40.60 | 43.32 | 43.55 | 43.70 | 44.58 | 49.38 | 2006 | 49.38 | 32.8% | 21.3% |
| 2007 | 50.95 | 51.18 | 53.59 | 56.09 | 58.16 | 56.37 | 53.90 | 48.65 | 50.96 | 57.03 | 48.21 | 45.75 | 2007 | 45.75 | (7.3)% | 19.8% |
| 2008 | 38.71 | 39.71 | 38.59 | 40.18 | 39.25 | 35.10 | 34.59 | 33.33 | 26.09 | 18.72 | 14.50 | 15.79 | 2008 | 15.79 | (65.5)% | 13.3% |
| 2009 | 14.62 | 13.24 | 14.96 | 19.63 | 22.82 | 23.73 | 26.14 | 27.05 | 28.41 | 28.53 | 28.69 | 29.83 | 2009 | 29.83 | 89.0% | 15.8% |
| 2010 | 28.50 | 27.58 | 29.90 | 29.58 | 25.53 | 24.72 | 27.82 | 26.74 | 30.36 | 33.68 | 31.85 | 34.52 | 2010 | 34.52 | 15.7% | 15.8% |
| 2011 | 34.91 | 36.17 | 36.51 | 39.63 | 37.86 | 35.31 | 35.83 | 32.76 | 29.28 | 32.04 | 31.23 | 30.59 | 2011 | 30.59 | (11.4)% | 14.56% |
| 2012 | 32.12 | 34.36 | 35.67 | 35.08 | 31.03 | 32.92 | 32.66 | 34.17 | 36.33 | 37.28 | 38.11 | 40.73 | 2012 | 40.73 | 33.1% | 15.22% |
| 2013 | 43.61 | 42.58 | 44.42 | 49.29 | 50.40 | 47.75 | 50.58 | 49.32 | 52.49 | | | | 2013 | 52.49 | 28.9% | 15.85% |

| S.No. | Ticker | Name | Initial Amount Invested | Shares Purchased | Date of Investment | Current Index Value |
|---|---|---|---|---|---|---|
| 1 | IGM CN Equity | IGM Financial Inc | $1,000 | 73 | 31/11/1986 | $3,466 |
| 2 | FCAM LN Equity | F&C Asset Management Plc | $1,203 | 485 | 5/31/1989 | $771 |
| 3 | IVZ US Equity | Invesco Plc (Previously Amvescap) | $1,357 | 1,153 | 1/31/1991 | $18,383 |
| 4 | SDR LN Equity | Schroders Plc | $1,208 | 505 | 3/31/1991 | $21,048 |
| 5 | RAT LN Equity | Rathbone Brothers Plc | $1,208 | 736 | 3/31/1991 | $18,697 |
| 6 | ADN LN Equity | Aberdeen Asset Mgmt Plc | $1,208 | 1,827 | 3/31/1991 | $11,196 |
| 7 | CIX CN Equity | CI Financial Corp. | $2,585 | 3,224 | 6/30/1994 | $97,783 |
| 8 | EMG LN Equity | Man Group Plc | $2,862 | 6,344 | 10/31/1994 | $6,548 |
| 9 | AGF/B CN Equity | AGF Management Ltd-Cl B | $3,343 | 1,346 | 1/31/1996 | $16,665 |
| 10 | 8739 JP Equity | Sparx Group Co Ltd | $11,762 | 108 | 12/31/2001 | $28,457 |
| 11 | HGG LN Equity | Henderson Group Plc | $14,447 | 8,666 | 12/31/2003 | $21,193 |
| 12 | AZM IM Equity | Azimut Holding Spa | $21,908 | 4,977 | 7/31/2004 | $113,749 |
| 13 | CCAP LN Equity | Charlemagne Capital Ltd | $36,848 | 22,300 | 3/31/2006 | $5,514 |
| 14 | PGHN SW Equity | Partners Group-Reg | $36,848 | 578 | 3/31/2006 | $141,764 |
| 15 | ASHM LN Equity | Ashmore Group Plc. | $36,688 | 9,873 | 10/31/2006 | $62,358 |



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