HEDGE FUND INTERVIEW

Peter Mantas and Matthew Castel

of Logos LP

Logos LP's strategy is built around value, but unlike other value funds, Peter and Matthew are not afraid to use leverage to boost returns. This approach has produced enormous returns for investors. For firm's first quarter to the end of April, Logos generated a total return to unitholders of 13.7%, compared to the S&P 500's gain of 6.7% over the same period. The trailing 12-month return was 27.2% and since inception investors have seen an annualized increase of 25.1%.

Positions in the firm's portfolio fall into two brackets, "core" and "peripheral." Core positions are established businesses with a bright outlook and history of producing returns for invests. Meanwhile, peripheral positions are more speculative but offer potentially higher returns.

The figures speak for themselves. Over the past three years, Logos' strategy of combining leverage with high-quality business and more speculative value plays has really paid off.

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HEDGE FUND INTERVIEW

Eric Gomberg

of Dane Capital

Dane Capital is a New York-based hedge fund, with a long-biased, concentrated portfolio, that focuses on value and special situations investments. Its founder and Portfolio Manager, Eric Gomberg, spent 10 years on the sell-side before moving to the buy-side in 2007.

Dane is noteworthy for its active participation in the SPAC market, post sponsors identifying merger partners, with over half of Dane's current portfolio being former SPACs, according to Dane materials.

As of September 1st, Dane has generated a net return of 25% in 2017, post fees and expenses. Since inception (October 2014) the fund has produced an annualized return for investors of 9%.

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EDITORS' LETTER

Welcome to the fall issue of Hidden Value Stocks.

Over the past year, we've interviewed fund managers with several different and exciting strategies. However, while the strategies of each manager may differ, the one common theme that unites them all is value.

So far, ideas profiled in this newsletter have produced an average total return of 23.4%. The largest gain so far has come from Mark Spiegel's Stanphyl Capital pick, Lantronix Inc (NASDAQ: LTRX), which returned 268% over a 12 month period.

In this issue, we continue our hunt to find hidden value with two funds that employ very different strategies.

The first interview is with Peter Mantas and Matthew Castel of Logo's LP who have produced annualized returns for their investors of 25.1% since inception three years ago. Logos uses a strategy that incorporates value, quality, and leverage; an approach that's clearly yielding results.

The second Q & A is with Eric Gomberg, the founder of Dane Capital. Year-to-date Dane has produced a return of 25% for investors by looking under rocks the rest of the market has overlooked: specifically SPACs.

However, before we get to the main events, we've got an update from Joe Koster of Boyles Asset Management regarding one of his pick's System1. Shares in System1 have suffered over the past three months as the company's outlook darkened and investors decided to take profits. Despite the declines, Joe and his team still see value in the shares.

We hope you enjoy this issue and welcome any comments you may have.

Sincerely,
Rupert Hargreaves
& Jacob Wolinsky

jacob@valuewalk.com
rhargreaves@valuewalk.com

Updates from previous editions

Boyles Asset Management: System1 Update

We asked Joe Koster of Boyles Asset Management for an update on his thesis for System1, which was, until a few weeks ago one of the best performers of the Hidden Value Stocks portfolio. Since the beginning of June, the shares have been on a steady downtrend and lost around a third of their value in a single day in mid-August after the company issued a profit warning.

Below Joe explains why he still likes the company and why, after recent declines, the shares might offer value.

These slowdowns tend to happen from time to time. In System1's case, the last big one happened in 2012 where, after having a great first half of the year, the usual end-of-year work in November and December didn't happen (and for reference, the share price took a dive from about 3.40 to about 2.10 over a couple of week period). While parts of System1's business have become more steady and recurring, much of it still depends on marketing budgets, which even among the larger, well-known consumer brands, can occasionally be lumpy. After going through the transcripts of a few of System1's customers, I think this excerpt below from Unilever, one of System1's bigger customers, pretty much explains the reasons for the quick slowdown (Unilever had added pressure this year as well after the talks of the potential bid from 3G, which ended up not materializing, but put pressure on them to be more efficient):

"In brand and marketing investment, we have delivered more than EUR 300 million of savings through Zero Based Budgeting. ZBB is helping us to reduce wasted investment, to drive efficiencies and to improve effectiveness. Let me give you just a few examples. Our analysis shows that we were producing too many new pieces of advertising. More than 95% of our advertising films were being replaced before they had reached their maximum effectiveness. Now this created a lot of wasted work, both internally and for our agencies. And by managing this better and running films for longer, we — our spend is down in agencies by about 17% in the ▸

first half. At the same time, by looking more closely and creatively at the costs associated with producing a new asset, we find savings opportunities, so we're now using a wider set of production houses in some lower-cost locations. This has helped us to reduce average cost per film by 14%."

WPP also mentioned the marketing/advertising cuts among the big consumer-goods companies in their latest call.

" John Kearon (System1's founder and CEO) has been saying over the last couple of years that market research will be changing more in the next 10 years than it has in the last 100, and on that side of things, even though they are still fairly small, they are well-known and have the track record to take market share if that ends up being true, especially since they have been so vocal about what needs to change.

For System1, all of the above is both a near-term threat as well as a long-term opportunity. John Kearon (System1's founder and CEO) has been saying over the last couple of years that market research will be changing more in the next 10 years than it has in the last 100, and on that side of things, even though they are still fairly small, they are well-known and have the track record to take market share if that ends up being true, especially since they have been so vocal about what needs to change. On the advertising side of things, they also saw a better way to do things and so have launched their own ad agency over the last year or two. If companies are serious about focusing on quality advertising and not just quantity, then having the market research tools to test ads before giving them to clients may help them get their ad agency off the ground a little quicker, but to be sure, this business is still a start-up, and some of costs to scale that up a bit as well as the investments to scale a growing business which failed to grow in the first half of the year is what has caused the profit drop. But the company still believes these are the right long-term investments, so hopefully this "capacity to suffer" the near term hit to earnings leads to good returns on those investments.

While the market seems to think management at System1 is also a little optimistic on their second half of year profit estimate, there are some signs for hope that things will pick up. Getting back to a few excerpts from the July Unilever call:

"Underlying operating margin was up by 180 basis points after a reinvestment of about half of the growth savings generated. The accelerated delivery of savings will allow a higher level of reinvestment, particularly in brands and marketing in the second half of the year. This will support an innovation plan, which is somewhat back-weighted this year, particularly in Personal Care."

"And it's also in Personal Care that we see the innovation and marketing plan for the year to be most backweighted. We therefore expect a significant step up in brand and marketing investment in the second half and an acceleration of volumes."

"Brand and marketing investment was lower than last year by 130 basis points. There are 2 main reasons for this. Firstly, the strong and fast delivery of savings and productivity gains from ZBB; and secondly, a back half-weighted innovation plan this year, particularly in Personal Care, as we focused on getting the new CCBTs fully up and running in the first half. With the planned step-up in the second half, we expect brand and marketing investment in absolute terms to be maintained at or around last year's levels."

" But given the people, culture, and balance sheet, I think anything in 500p to 600p range is a reasonable buy, as I think they'll be back earning more than their peak from last year (~0.32 per share) in the future...

Pinning down a precise valuation is always going to be tough for System1 until they get much bigger and things get slightly more predictable. But given the people, culture, and balance sheet, I think anything in 500p to 600p range is a reasonable buy, as I think they'll be back earning more than their peak from last year (~0.32 per share) in the future... but whether that happens in six months or five years I think is hard to tell. But all in all, I think the stock was a little dear in the 800p to 1000p range, and would be very cheap in the 300p to 400p range, so down where it is now, I expect a good return with the potential for a great return if they accomplish their goals. ■

Hidden Value Stocks Portfolio

Edition	Fund	Ticker	Open Price	Date Pitched	Date Closed	Dividends	Current Price (1) (2)	Total Return
1	Troy Marchand	NYSEMKT:VISI	$7.60	1/28/16	1/28/17		$8.45	11.18%
	Foundary Capital	NASDAQ:MRVC	$11.21	1/28/16	1/28/17		$8.15	-27.30%
2	Mark Spiegel	NASDAQ:MGCD	$5.94	3/28/2016	3/28/2017	$0.70	$8.30	39.73%
	Stanphyl Capital	NASDAQ:LTRX	$0.90	3/28/2016	3/28/2017		$3.31	267.78%
		NASDAQ:ELON	$5.77	3/28/2016	3/28/2017		$6.20	7.45%
		NASDAQ:BWEN	$2.87	3/28/2016	3/28/2017		$7.25	152.61%
3	S&C Messina	NYSE:PRA	$51.47	06/21/16	06/21/17	$1.24	$60.15	19.27%
4	Barry Paskiov	NASDAQ:CUI	$5.99	09/23/16			$3.64	-39.23%
	Hazelton Capital	NYSE:CPS	$106.03	09/23/16			$99.35	-6.30%
5	Joe Koester	LON:SYS1	500	10/07/16		45.60	569.00	22.92%
	Boyles Capital	ATH:PLAT	€1.69	10/07/16			$2.99	76.92%
6	Livermore	CVE:JSE	$0.50	12/21/16			$0.41	-18.00%
	BlueTower	NASDAQ:NICK	$11.10	12/21/16			$8.31	-25.14%
		NASDAQ:EZPW	$10.65	12/21/16			$9.20	-13.62%
		NASDAQ:MMAC	$21.45	03/15/17			$24.78	15.52%
7	Arquitos Capital	NASDAQ:MLNK	$1.87	03/15/17			$1.57	-16.04%
	Alluvial Capital	ASX:CZZ	$14.58	03/15/17			$16.26	11.52%
		TSE:CRH	$11.33	03/15/17			$2.68	-76.35%
8	Verdad	TYO:4028	¥1,050	06/15/17			¥1,439	37.05%
		TYO:9994	¥1,620	06/15/17			¥1,659	2.41%
	GrizzlyRock	NYSE:RSO	$9.95	06/15/17		0.2	$10.12	1.71%
		NYSE:VPG	$17.45	06/15/17			$21.75	24.64%
							Average return	23.44%

(1) For closed positions this price is the price at time of close.
(2) Prices as of Sept 09

Hazelton Capital: One year on

It has been a year since we interviewed Barry Pasikov of Hazelton Capital Partners. We asked him to give us a quick update on the positions that were mentioned in our interview.

Micron Technology (MU)

Over the past year, Micron Technology's share price has rallied over 100%. Both DRAM and NAND prices maintained their healthy upward momentum which has lead to EPS expectation around $4.60 for 2017 and $6.25 for 2018. At $34/share, Micron is trading just below 7.5x and 5.5x 2017 and 2018 expected earnings respectively - a true indication that the market does not believe that the current DRAM and NAND average selling price is sustainable.

In the past, the digital memory and storage industry has been a victim of rapid technological change and competition amongst its members, preventing companies from achieving a meaningful return on their invested capital. Today, with 3 major players in DRAM and 5 in NAND, market share is driven by demand and production capacity and not by achieving market share, as industry pricing has become more "rational." That is not to say that cyclicality will not play a role, but as demand for digital memory and storage expands from an increasingly connected data ecosystem, including the cloud, storage servers, mobile devices and now the burgeoning IoT (internet of things), I expect the duration of the cycle to be both longer and with a more muted peak to trough pricing leading to a stronger and more sustainable average selling price.

The average selling price of both DRAM and NAND may decline in the coming months, but as the industry continues to leverage its production capabilities and with the speed of technology innovation cycles slowing, I expect to see the cost of production falling faster than the decline in selling prices, allowing companies to continue to earn a healthy return on their most recent capital expenditures.

Softbank

Hazelton Capital Partners closed out of its Softbank position over the summer. The Fund's thesis did not change, there still remains a discount between the sum of Softbank's parts and its share price. The biggest change within the company was the news that Masayoshi Son raised a $100 billion fund to invest in artificial intelligence, connected devices, "integration of computers and humans," and other technology companies. Son's Vision Fund gives him access to a pool of capital that is 4x greater than the largest global private equity fund.

The concern is not with Masayoshi Son's ability to allocate capital, as he has proven himself to be a gifted investor, but that Son will be incentivized to invest the money instead of being patient, at a time when market valuations are not cheap. Over the last three years, private equity returns have plunged as the tech sector has seen too much money chasing too few deals. With Son's 300 year plan to build Softbank into the world's most valuable company, even he could easily justify paying a market premium for an acquisition.

Hazelton Capital Partners' plan was always to lighten its Softbank position in the low to mid $40/share range. Above $40/share, the discount between Softbank's assets and its share price is not as dramatic as it was a year ago. Once Hazelton Capital Partners began selling shares at that level and with Son's new focus on investing the Vision Fund's capital, the decision was made to sell the entire position.

We will continue to review Softbank and its valuation and would welcome the chance to reinvest in Masayoshi Son.

Cooper Standard Holdings

Cooper Standard share price is relatively flat when compared to its share price a year ago. However, in that period of time, the company has seen its shares decline 20% and rally 15% from its current level. I had mentioned in my interview that I believed Cooper Standard's shares will be highly influenced by the overall direction of Ford and GM's share price.

Currently, Cooper Standard is trading at 10x and 9x 2017 and 2018 projected earnings. This is a "Goldilocks" valuation, not too cheap and not too expensive. There remains areas of growth in both the company's future revenue and cost savings that have not been fully exploited. Much of Cooper Standard's future organic ▸

growth is expected to come from its Asia-Pacific operations as the company focuses on creating inroads into the Asian manufacturers like Toyota, Hyundai and Kia Motors. Expanding its current foothold in China is also critical step for the company. It is expected that over the next few years, Asia-Pacific (mostly China) will represent over 50% of global OEM production.

Over the past couple of years, Cooper Standard has added a number of premium products to their catalog that are more durable and significantly lighter than its current legacy products. Theses premium products carry a higher average sales price and margins as they help OEM meet future CAFE standards, by reducing the weight of their automobiles/SUVs which increases the number of miles the automobile can travel on a gallon of gas.

In addition, Cooper Standard's future operational leverage is not being fully reflected in the company's current margins and earnings. Cooper Standard is in the process of implementing its Cooper Standard Operating System: a best practices system that ensures that its bidding, design, manufacturing, delivery and customer service are all part of the same ecosystem regardless of location. When added to the future savings from relocating its Western European facilities into Eastern Europe, Cooper Standard earnings should be meaningfully impacted.

Overall, I think Cooper Standard remains in a strong position to benefit from the strategic moves the company has made to increase sales, improve margins and reduce operating costs, even as the rest of the market is concerned about future OEM car and truck sales.

CUI Global

In the past year, CUI Global's share price has fallen approximately 30% due to disappointing earnings. The earnings decline stemmed from an ongoing disruption to CUI's monthly delivery of metering units to Snam Rete because of an ongoing dispute Snam Rete and its regulator are having over a tariff.

The disruption to the Snam Rete installation and the company's lack of consistent earnings has overshadowed recent announcement that CUI formed a strategic alliance with the French energy company, Engie. Although not a purchase order for metering units as expected, this alliance will give CUI access to Engie's customers in Western Europe, Asia and North America. Combined with a $40 million, five year goods and service agreement with National Grid, ongoing deals with SGN, Daily Thermetrics and a recent OFGEM letter suggesting CUI's meters as a solution for small metering stations in the UK, I feel that the CUI's downside at current levels is limited.

On the Power and Electromechanical segment of the business, CUI reported both a strong first and second quarter revenue buoyed by an inventory refresh and ramp up in sales from established and newly established distributors.

Unfortunately, because of all the recent revenue delays and disruptions from its energy segment, CUI has used up much of the its "goodwill" with the market and will have to prove it can generate sustainable revenue before being fully reflected in its share price. Hazelton Capital Partners invested in CUI knowing it was going to be a bumpy ride, and so far, we have not been disappointed. I have mentioned in the past that patience is a necessary discipline to be a successful investor and CUI has truly tried my patience. ■

HEDGE FUND INTERVIEW

Peter Mantas and Matthew Castel

of Logos LP

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Peter Mantas

Matthew Castel

To start, can you describe your investment strategy?

At a high level, our investment strategy seeks to generate the highest absolute return over the long-term while minimizing the risk of permanent capital loss. To do so, we invest in underestimated businesses priced below their intrinsic value. When we find either high-quality companies trading at a discount to their intrinsic value (cores) or businesses simply facing transitory special situations leading to a depressed valuation (peripherals) we take meaningful positions. As such, our portfolio is conceptually divided into risk weighted 'sub-portfolios,' each with its own set of core and periphery weighted assets.

> *“We see leverage as a risk mitigating tool that allows us to do a few things: 1) deploy capital towards our watch list when prices are in our favor 2) dollar cost down on current positions when we necessary 3) to take advantage of special situations when the risk reward equation is sufficiently favorable.*

Do you think the levered element of your portfolio helps you stand out from the crowd?

It is important to note that we quote our returns on an unlevered basis. We see leverage as a risk mitigating tool that allows us to do a few things: 1) deploy capital towards our watch list when prices are in our favor 2) dollar cost down on current positions when we necessary 3) to take advantage of special situations when the risk reward equation is sufficiently favorable. In this sense, we have found that a prudent use of leverage not only aids us in attaining above average returns over the long-term but also helps us to smooth out inevitable volatility given that we typically have ample cash to take advantage of opportunities at depressed prices. You could think of this as a competitive advantage.

Some investors might think that levering up to take advantage of opportunities might increase risk. What's your view on this?

It is interesting you mention this as we have a somewhat different perspective on risk. We define true 'risk' as the potential for a) permanent capital loss, and b) inadequate returns. We do not view risk as “benchmark risk” – how our returns compare to those of an index – particularly in the short-term since our view is always for the long-term. We believe that leverage buys us time and provides us with access to capital. This allows us to hold cash when prices are not in our favor (preventing capital loss) and to build a position on our watch list at an attractive purchase price within a significant margin of safety, especially if that name continues to decline. After all, we evaluate risk based on a) the stability and dependability of value and b) the relationship between price and value.

You mentioned that your portfolio is separated into two buckets, “core” and “peripheral.” What separates these two classes and why did you decide to use this structure?

We believe our unique portfolio construction ▶

is not only agile and scalable but contributes to outperformance while minimizing permanent capital loss. The major factor that separates these two classes really relates to our selling threshold and holding period. Given the stability and dependability of their value, "cores" allow us to smooth out the volatility which certain peripheral positions naturally exhibit. Our propensity to sell or transition out of a core is very low (unlike peripherals), and ideally, we aim to hold core positions for decades. For certain peripherals, if the stock gets out of its depressed state due to a turnaround or if the specific catalyst starts to change leading to more efficient market pricing, we will exit the position to capture profits. Oddly, over a dozen of our peripherals have either been acquired or in acquisition talks since we started the fund, and usually we will exit the position on the news, especially if we are not fond of the acquiring company and shares are exchanged.

What are the qualities you're looking for in a "peripheral" position?

"Peripherals" are either: 1) potential baggers (expected high growth businesses with long potential runways) 2) potential baggers at a depressed valuation (long potential runway stocks that have declined significantly for a specific reason) or 3) stocks with a specific catalyst leading to a depressed valuation. Our peripheral positions tend to have small market capitalizations, and the golden egg is peripherals in the second category as these are very difficult to find.

One example of a peripheral position in our portfolio in the third group is Rocky Mountain Dealerships, which is a small cap agricultural dealer listed on the TSE. The company was depressed given the decline in soft commodities over 2014-2016, a recession in the Alberta economy and declining revenue and margins. We picked the stock up at $6.19 with a 9% dividend yield and calculated fair value north of $14.50. Current stock price is $10.09. Despite the headwinds facing Rocky Mountain, this was a name that was too underestimated and thus too cheap to pass on. This kind of name wouldn't be a core position given the instability of its value but is a perfect peripheral which paid us while we waited for it to reach our estimation of fair market value.

What's your general holding period for a "peripheral" position and do these positions ever make it to "core" status?

It depends on the category of the peripheral. Certain peripherals with very long runways we may hold for years until it realizes our estimation of intrinsic value. For others, the turnaround might be quicker, or the company may be acquired which allows us to take profits sooner. Two of our peripherals have become cores over time, so it is possible and will probably happen again since we like all the businesses that we are in.

> *We picked the stock up at $6.19 with a 9% dividend yield and calculated fair value north of $14.50. Current stock price is $10.09.*

On the topic of core positions: You've described several times in your letters that Church & Dwight is a core. What do you like about this company?

Church & Dwight is a visionary company, plain and simple. We were lucky to enter into this mid-cap core position very early on and will continue to hold the position for the long-term. They compete in the land of elephants but continue to squeeze significant cash flow from their strong portfolio of brands, continue to innovate into new product categories, make high-return/asset-light acquisitions and generate consistently high returns on invested capital. Many argue that Church & Dwight may not have a moat, but we believe their ever-increasing gross margin and the fact that they have one of the lowest depreciation expense ratios compared to their peers is indicative of their strong moat. They are one of the highest quality operators with consistently growing retained earnings and return on capital of over 130%.

> *Church & Dwight is a visionary company, plain and simple. We were lucky to enter into this mid-cap core position very early on and will continue to hold the position for the long-term.*

The shares aren't particularly cheap today. Is this a valuation you're buying?

We were lucky to enter into the position at a good price in early 2015. We believe the company is in the upper-end of our valuation model, so we are not adding to this position at the moment. However, a case can be made for its undervaluation over the long-term: the recent Waterpik acquisition changed our outlook slightly, and we believe the company can hit roughly $4.5 billion in sales by 2020. At 3.8x expected 2020 sales (which is below its current multiple and is a multiple that is closer to its much larger and slower growing peers) the company has ~$17.1 billion market cap which means it would be trading roughly 30% below intrinsic value. ▶

You mentioned "potential baggers" as part of your peripheral strategy. What is a "bagger" and can you give an example of a name in your portfolio today that has "bagger" potential?

Our peripheral strategy was influenced by Thomas Phelps' 1971 book that explored stocks that have made outsized returns (100x, 200x, 300x, 1000x or more) in the equity markets. These are names that over the long-term have very long and explosive growth cycles leading from small market capitalizations to large ones. An example of a bagger is a name like Amazon, which started as a moderately quality operator in the early 2000s, went nowhere for eight or nine years, then exploded leading to a 5000x+ return in 20 years. These are companies that typically operate in markets with high levels of disruption, create brand new processes or products and have very long runways given their market dynamics.

A potential bagger that we like and have in our portfolio is a company called Luxoft Holding Inc(NYSE:LXFT). Luxoft is a managed services and IT consultancy company based in Switzerland that we believe is a 'baby Cognizant' focused on next generation technologies such as, but not limited to, complex IoT for global telecom providers, autonomous driving for large automotive companies and blockchain for leading financial services institutions. What we like about them isn't just their prospects but their ability to operate: they are a high-quality operator (very high ROIC, very sticky revenue, zero debt, incredibly strong FCF growth, strong book value per share and retained earnings growth). Moreover, the company faced stiff headwinds in 2015-2016 and is well off their 2015 highs due to declines in gross margin, slowing earnings growth and questions around their European top-line growth. This company is small with a market cap of around $2.2 billion, but we believe the company could attain solid growth in its market share within the IT consulting industry given its leadership position in these technologies, leading to at least a $40 billion valuation over the next decade and a half.

Could you give us an example of another core position?

Grupo Aeroporto dl Srst SAB CV (NYSE: ASR) is another core we own. They have a monopoly on the Cancun airport and a 50% ownership stake in the Puerto Rico airport. We initially got into the position in early February 2016 (it's now up over 66%) and this was during a time when global markets were in a panic over China as the Shanghai market had dropped over 30% in three weeks leading up to early February. Despite solid fundamentals, the stock fell nearly 20% from August to February on global emerging market fears. The company has a strong moat (nothing beats a monopoly) is a smaller airport operator with a significant growth runway, and has operating metrics that monopolies naturally command: 37% net profit margin, return on capital over 1100%, operating margins over 52%, return on tangible equity over 179%. Net income grew over 25% from 2015-2016 while capex decreased over 60% leading to record free cash flow. We saw the Shanghai market panic as an opportunity to build a meaningful position in the name and are keen on holding the company for a long time.

"The company has a strong moat (nothing beats a monopoly) is a smaller airport operator with a significant growth runway, and has operating metrics that monopolies naturally command: 37% net profit margin, return on capital over 1100%, operating margins over 52%, return on tangible equity over 179%.

What is your view on diversification?

We believe that returns become diluted through over-diversification, so we only invest in our most "high conviction" ideas for both core and peripheral positions. We believe in holding for the long-term, we won't consider a high-quality stock unless we feel comfortable holding it for decades. We also believe very strongly in the idea of staying within our "sphere of competence." There will simply be a natural limit to the number of businesses and industries you can genuinely understand and effectively follow. The conventional wisdom on diversification typically misses the mark on this.

It certainly looks as if you are comfortable being highly concentrated as in your first quarter letter you note 73% of Logos' portfolio is devoted to just ten top names. Why have you taken this approach?

Part of our view on risk is the prospect of inadequate returns over a period. We believe that if we do not invest in our best ideas, it creates enormous opportunity costs down the road, which adds unnecessary risk to our profile. We believe that not having this level of concentration makes us uncomfortable because we genuinely understand the businesses we own and would not be able to keep a good handle on our portfolio with many names. If you think about it, most highly successful people focused most of their efforts on the continuous practice of a narrow set of disciplines or even one discipline. You hear about the 10,000-hour rule leading to ▶

mastery, why should investing be so different?

Over the past three years, your assets under management have grown 600%. Has this growth forced you to change your strategy?

We believe our investment process and portfolio construction is innovative yet it is also disciplined and thus scalable. Asset growth does make our jobs more difficult especially in a bull market, but that's what makes capital allocation so stimulating. Although a very high level of asset growth can dilute returns, we believe that our interdisciplinary application of timeless value investing principles allows us to phase in new capital at the right times.

How are you positioning for the current investment environment?

These are interesting times indeed with market behavior and sentiment beginning to cross into "too-bullish" territory. Although we hesitate to look at the "overall market" and prefer to focus on individual opportunities, we have begun to exercise more caution in an environment of increasing risk-taking behavior. No one can accurately predict when a bust or major correction will commence yet we have been trimming some of our peripheral positions and are currently monitoring a few names on our watch list. We believe there is some exceptional value in Canada, especially in the sub-$1 billion market cap area, ex-energy. We are also monitoring two larger caps that are below our entrance targets (one may become a core position over time), but we believe patience and caution is the best medicine in the current investing environment. ■