OYAT ADVISORS

PROTECTING & GROWING
YOUR CAPITAL

OUR MISSION

Our mission is the preservation and appreciation of capital in real terms across market cycles, macroeconomic circumstances, and geopolitical events. We pursue our mission by following a disciplined investment process built on core principles and strategies proven to produce superior investment results.

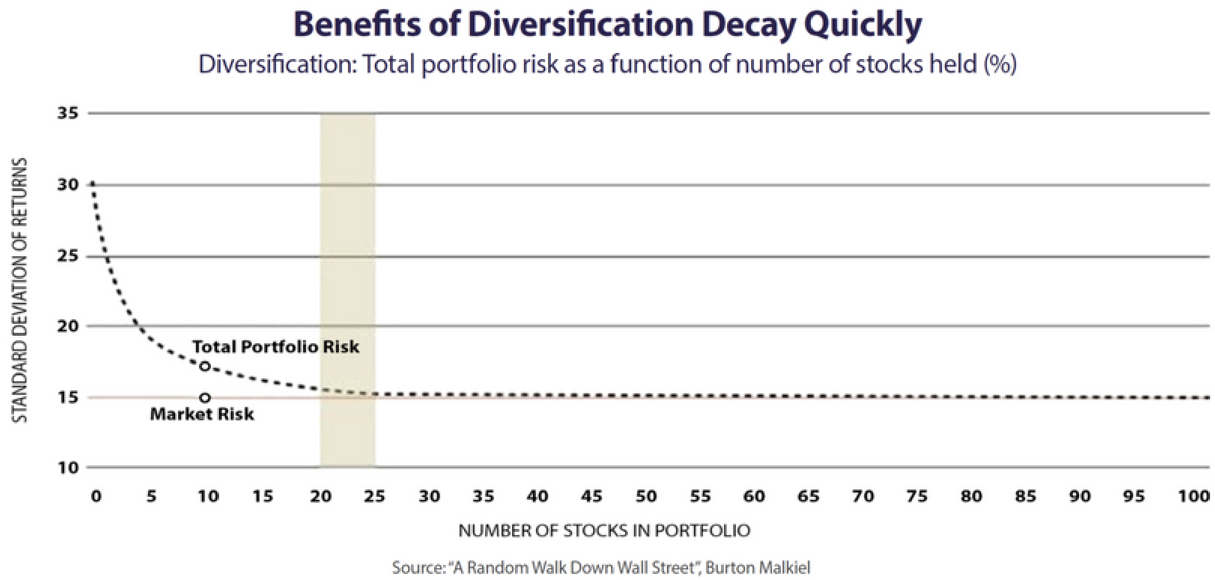
- ## Focus
  Concentrated yet diversified portfolios with high active share
- ## Patience
  A long-term focus with the corresponding low turnover
- ## Discipline
  A structured and repeatable process that controls for human biases
- ## Alignment
  We invest alongside our clients while charging reasonable fees

***Active share** measures the difference between a portfolio's holdings and its benchmark index. A portfolio that replicates the index has an active share of zero, while a portfolio that owns entirely out-of-benchmark securities has an active share of 100.*

FOCUS

Conviction: Investors are repeatedly told to diversify their portfolios. Diversification is indeed an important principle we strongly support, but we dig deeper to determine just how much diversification is truly appropriate. We want diversification without dilution. Evidence clearly shows that the benefits of **diversification** tend to recede beyond about 25 positions in a portfolio. We target 25 positions to ensure that we are maximizing the benefits of diversification without diluting our conviction. The Concentration Manifesto from Alpha Theory goes a step further and suggests that too much diversification is a key contributor to underperformance for active fund managers, giving even more credence to our target of 25 positions.

Focusing on a select list of companies has additional advantages. It allows us to **deeply research** and thoroughly understand all our positions. It also naturally leads to a truly high **active share**. While we do not use a benchmark and therefore do not calculate active share, our concentrated portfolios are clearly differentiated from global equity indices. Unfortunately, investors are beset with products claiming to be active, when in reality they have a low active share and hardly differentiate themselves from their benchmarks. These "closet indexers" cloud the success rates of truly active products such as ours. Research* shows that funds with a high active share tend to provide superior performance.



*Antti Petajisto (2013) Active Share and Mutual Fund Performance, Financial Analysts Journal, 69:4, 73-93, DOI: 10.2469/faj.v69.n4.7

PATIENCE

Long-term: In a world increasingly bent on instant gratification, we believe that our long-term focus is a key differentiating factor and competitive advantage. Many claim to resist the plague of short termism, but average holding periods that have shrunk from years to days belie those claims. Having a long-term focus with holding periods often reaching four to five years and beyond seems to make one an exception these days.

The good news is, the market is serving us a **competitive advantage** on a silver platter. Our long-term approach differentiates us from short-term market timers, which we believe will result in superior returns. Research supports this idea, with evidence* showing that US funds from 1990 to 2013 with high levels of both active share and patience (defined as an average holding period over two years) outperformed by over 2% percent per year, net of fees.

At Oyat Advisors, long-term thinking forms the base of our **investment process**. We recognize many drivers of share price appreciation occur over time and that patience can be key to optimizing returns. We seek to have a competitive advantage when it comes to evaluating the long-term **value creation** of potential investments, maximizing the expertise of our experienced investment professionals. There is an elegant simplicity in owning companies that can sustainably achieve high levels of return on investment and letting them do the value-creating work for you.

*Cremers, K. J. Martijn and Pareek, Ankur, Patient Capital Outperformance: The Investment Skill of High Active Share Managers Who Trade Infrequently (December 1, 2015). Journal of Financial Economics (JFE), Forthcoming, Available at SSRN: https://ssrn.com/abstract=2498743 or http://dx.doi.org/10.2139/ssrn.2498743

DISCIPLINE

Structure: We adhere to a clearly defined investment philosophy and follow a structured process, enabling us to focus on what we can control: making **sound investment decisions**. Investors are prone to a plethora of cognitive biases which cause them to deviate from rational judgement, and we repeatedly hear stories of investors underperforming the market due to panic selling or exuberant buying at exactly the wrong times. We are thoroughly aware of our own susceptibility to biases which is why we have constructed a structured investment **process** that combines human expertise with quantitative guiderails.

We start by constructing a "core list" consisting of approximately 400 of the world's highest-quality companies that have proven their ability to create significant value over many years. We then rigorously research companies before considering investment while applying a qualitative and **quantitative** assessment of metrics such as competitive position, growth, financial health and management stewardship, among others. The resulting "quality score" is then combined with a conservative **valuation** driven largely by our own models. The combination of quality, valuation and our overall conviction allows us to pick the best of the best while keeping biases in-check.

The next step is position sizing with a view on overall portfolio composition. Position sizing is often ignored or haphazardly done, which is surprising given its importance. Our structured process includes a quantitative **position sizing** tool to further dampen the potential harm from biases. While our portfolios are predominantly quality equities, we apply a quantitatively driven overlay of assets such as physical gold and commodities in order to help navigate volatile markets and improve **long-term performance***. Our process ends and begins again with disciplined monitoring and the continuous pursuit of perfection.

*Evidence shows that adding physical gold to portfolios can improve returns. One example is a recent report from the World Gold Council: The relevance of gold as a strategic asset 2022.

ALIGNMENT

Trust: We consider aligned interests as an essential part of an investment relationship. When it comes to investing, there is no better way to **align interests** than to invest alongside each other with a like-minded focus. Oyat and its key employees are materially invested in our strategies, raising **intrinsic** motivation and ensuring a culture of client satisfaction. After all, we are a client too, and your success is our success.

Aside from the desire to align our process with our clients' interests as well as our **core principles**, we also do it because we believe it improves performance. Evidence* shows that portfolio managers that invest alongside their clients tend to achieve superior results. It sounds like a win-win situation to us. The focus on long-term alignment also leads to another source of improved performance – reasonable fees. We prefer to grow with our clients and benefit from asset growth over the long-term rather than apply inappropriate fees that have a direct negative effect on fund performance.

*Gupta, Arpit and Sachdeva, Kunal, Skin or Skim? Inside Investment and Hedge Fund Performance (December 13, 2017). Columbia Business School Research Paper No. 17-61, Available at SSRN: https://ssrn.com/abstract=2982889 or http://dx.doi.org/10.2139/ssrn.2982889

PROCESS DETAIL

01

A broad universe of thousands of global equities is scrutinized for quality (with a focus on ROE and ROIC) and sustainability of returns and balance sheet strength. Consistency of returns is critical with expected double-digit ROIC over many years.

02

Only about 400 quality companies pass our initial filter, we then rigorously research them and assign quantitative scores to metrics such as competitive position, growth, management stewardship, value creation, financial health, cash flow and risks to create a “quality” score.

03

We then combine various valuation approaches focused on our discounted cash flow models, but also incorporating multiples and external analysis. The valuation is then combined with the “quality” score to complete our profile of the company.

04

Approximately the top 25 companies are chosen, with a view toward a balanced fund composition. Position sizing is critical and often ignored. We deploy a structured and quantitative approach combining our quality, risk and valuation assessments with weights generally between 2% and 10%.

05

With the equity portfolio assembled, we then balance its risk profile using differentiated asset classes such as precious metals and commodities. We use our proprietary and data-driven allocation tool to layer-in these diversifiers on top of our high conviction core of equities to achieve superior long-term returns.

06

The portfolio is monitored and adjusted as needed to optimize exposure at all times. Our structured and quantitative process guides our intellectual decision making, reducing the risk from biases while keeping us focused on the keys to capital preservation and appreciation.

WHY DO WE OWN GOLD?

Security: Our ownership of physical gold over the past decade has been motivated by two main considerations.

First, to own a hard currency in reserve that adequately acts as a **store of value**. And second, to create a potential hedge against the myriad risks facing investors today. This includes the frailties of the global monetary and financial system, of which inflation is a manifestation; as well as geopolitical turmoil.

Over the years, we've become increasingly convinced that gold is arguably the most compelling form of **hedge** against such risks, as evidenced throughout history. This is due to its inherent characteristics, which can be summed by the notions of scarcity, permanence, and independence. In various ways, these properties enable gold to preserve its purchasing power over the long-term, and tend to make its price dynamics counter-cyclical.

As a result, we see gold as both a hard currency that we can hold in reserve and exchange for other assets as opportunities arise, as well as a permanent stabilizer and counterbalance to our portfolio. The vast majority of our exposure to precious metals takes the form of **physical gold**, which we complement with a much smaller amount of precious metals companies.

"The great merit of gold is precisely that it is scarce; that its quantity is limited by nature; that it is costly to discover, to mine, and to process; and that it cannot be created by political fiat or caprice." - Henry Hazlitt

"Gold is money. Everything else is credit." - J. P. Morgan

"The first panacea for a mismanaged nation is inflation of the currency; the second is war. Both bring a temporary prosperity; both bring a permanent ruin. But both are the refuge of political and economic opportunists." - Ernest Hemingway

"In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value." - Alan Greenspan

INVESTING PHILOSOPHY

Responsibility: For many years now, we've been entrusted with the responsibility of providing stewardship for our clients' investment capital. From the onset, we recognized that this capital represents the fruits of a hard-working professional and entrepreneurial careers; in other words, savings accumulated over entire lifetimes if not generations, which are both **scarce and irreplaceable**.

Throughout modern history, the preservation of capital in real terms has never been easy. As has been commonly observed, "it is easier to make money than to keep it". This is due to the fact that private capital is subject to taxation, inflation, various regulations and controls; in addition to bad investment decisions, misfortune, behavioral biases, and various fees by financial intermediaries. To complicate matters further, the policies of central banking authorities over the past decade since the financial crisis of 2008 have rendered many of the traditional tools for **capital preservation** useless to a large degree. As a result, some argue that in the current environment, the endeavor of real capital preservation while adhering to a prudent investment strategy borders on the impossible. We don't disagree that it represents a formidable challenge, and a true test of one's investment principles.

> **“The first rule of investment is don't lose money. And the second rule of investment is don't forget the first rule. And that's all the rules there are - Warren Buffett”**

Fortunately for us, we did not embark on this journey inadequately prepared. For many decades, we've spent a considerable amount of time expanding our knowhow and exchanging ideas about investment management, economics, and economic history; driven by a clear refusal to operate in an intellectual vacuum, suspend **critical thinking**, and accept the unprecedented as the new norm. Over time, this led us to adopt much of the philosophy that is commonly referred to as "value investing", perhaps most importantly because of its emphasis on **fundamental analysis**, as well as the deployment of capital at a suitable margin of safety, therefore minimizing the chances of permanent capital impairments. Moreover, our research of Austrian economics has been equally influential, especially in informing the macroeconomic environment in which we currently operate, notably regarding the impact of credit creation on the business cycle.

Below, we briefly summarize some of the **key investment principles** that we strive to adhere to in the management of our clients' capital.

KEY PRINCIPLES

Investments as partial ownership in real businesses

Our first and foremost principle is the notion that our equity investments represent partial **ownership** claims on real businesses. More than ever, it appears many investors are sadly almost exclusively focused on the outcome of owning assets that they believe will go up in price. At the risk of oversimplifying, this essentially sums up their investment philosophy and process. We, on the other hand, recognize that value creation is the result of **enduring** productive enterprise that creates added value in fulfilling a market need. This is a simple notion, but it has a massive impact on every one of our other investment principles, as described below.

A long-term investment horizon

If investing is all about deploying capital in the same frame of mind as business owners, it then follows that one should adopt a long-term time horizon. However, in a world increasingly bent on instant gratification, an ever-greater number of investors are primarily focused on making short-term investment gains, as exemplified by a common saying in the financial industry that "being early is the same as being wrong". Conversely, we take the view that meaningful changes in real businesses can take time.

A long-term investment horizon also helps isolate transitory events that can negatively impact results, and acts as a key factor in the convergence of economic and moral choices. Last but not least, we acknowledge that capital appreciation is mainly driven by the **power of compounding** reinvested earnings over the long-term.

A focus on investing in high-quality companies

What kind of business participations would one want to own, if these were to be held for years, decades, or generations? Perhaps the first concern is a company's ability to survive and **endure** over time in a dynamic and competitive marketplace, which in itself is no small feat. Second, the focus ought to be on companies that have a proven ability to add value, as interpreted by the level and consistency with which they earn a return on invested capital in excess of their capital costs. This, in turn, is typically the result of some form of **sustainable competitive advantage**, be it related to a cost advantage, intangibles assets, customer switching costs, efficient scale, or a network effect. Thus, by focusing on high-quality companies, investors shift much of the burden of value creation, and therefore capital appreciation, onto the companies themselves, as any unpretentious investor would no doubt agree makes a lot of sense.

A focus on like-mindedness and the alignment of interests

Furthermore, such high-quality businesses must be managed by officers who share our **principles**, as their actions ultimately have a large impact on the monetary value of the companies they manage, and thus our savings. Are we like-minded in terms of key characteristics such as time horizon, customer orientation, **financial discipline**, adaptability to change, and corporate responsibility, to name a few?

Equally as important is the manner in which these agents are motivated, principally via their remuneration and incentives (or more importantly disincentives). Over time, we've come to have a clear positive inclination towards family businesses, or the owner-operator model, due to the fact that they share a common stake with investors in the enduring prosperity of their company, or the proverbial **"skin in the game"**. The same logic, of course, should be applied to the investment managers of irreplaceable savings, as is the case for Oyat.

A fundamental understanding of risk

For decades, industry participants have gradually taken the practice of investment management away from a judgment-based endeavor towards a so-called scientific process based on theories and mathematical models. The prudent and careful weighing of both **qualitative and quantitative** considerations about an ultimately uncertain future has increasingly been replaced by financial spreadsheets, statistical risk models, and compliance officers. Theories like the Efficient Market Hypothesis and Modern Portfolio Theory dominate industry thinking, and essentially assume that i.) markets are perfectly efficient, ii.) investors should only consider expected return, risk, and diversification, and iii.) that risk equals volatility around average returns.

Now, we have a problem with using theories that makes such assumptions to guide the management of our savings. Specifically, we disagree with the notion that markets are perfectly efficient at all times, and strongly disagree with the treatment of investment risk as a purely quantitative issue based on volatility. Investment risk, when looked at through the prism of a business owner, is about competitive rivalry, market obsolescence, financial and operating leverage, customer concentration, supply chain, regulatory risks, and other such **fundamental factors**. That is the perspective of risk management that we try to adhere to. Likewise, in a market that sometimes does not reflect equilibrium prices for a variety of reasons, exploiting risk/return asymmetries is precisely what the practice of investment management is all about.

CONTACT OYAT ADVISORS

Oyat Advisors is a licensed investment advisor based in Zürich, Switzerland. The company acts as the portfolio manager of the Oyat Investment Fund.

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Oyat is the French name of a beach grass that thrives in harsh coastal conditions, protecting the dunes with its strong roots.