OYAT ADVISORS –

Investment Philosophy & Process

PART I — INVESTMENT PHILOSOPHY

Oyat Advisors is a FINMA-licensed portfolio manager based in Zürich, Switzerland, managing client capital since 2015. Our objective is to preserve and grow capital in real terms across market cycles – by delivering equity-like returns with meaningfully less exposure to equity market risk. This document sets out the principles that guide how we invest, and the process through which those principles are applied.

For more than a decade now, we have been entrusted with the stewardship of our clients' investment capital. From the outset, we recognised that this capital represents the fruits of hard-working professional and entrepreneurial careers — 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 decades since the global 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.

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.

Investments as partial ownership in real businesses

Our first and foremost principle is that equity investments represent partial ownership claims on real businesses. Many investors appear focused almost exclusively on the outcome of owning assets they believe will rise in price; at the risk of oversimplifying, this often sums up their entire philosophy and process. We take the view that value creation is the result of enduring productive enterprise that adds value in fulfilling a market need. It is a simple notion, but it shapes every other principle that follows.

A long-term investment horizon

If investing is about deploying capital in the same frame of mind as a business owner, it follows that one should adopt a long-term horizon. In a world increasingly bent on instant gratification, ever more investors are focused on short-term gains — exemplified by the industry saying that "being early is the same as being wrong". We take the opposite view: meaningful change in real businesses takes time, and closing the gap between market price and intrinsic value can take years.

A long-term horizon also helps isolate transitory events that would otherwise distort results, and it acknowledges that capital appreciation is driven principally by the power of compounding reinvested earnings. Lastly, a long-term investment horizon acts as a key factor in the convergence of economic and moral choices.

A focus on high-quality companies

What kind of business would one want to own if it were to be held for years, decades, or generations? The first concern is the company's ability to survive and endure in a dynamic, competitive marketplace — in itself no small feat. The second is a proven ability to add value, as interpreted by the level and consistency with which the business earns a return on invested capital in excess of its cost of capital. This is typically the result of some form of sustainable competitive advantage: a cost advantage, intangible assets, customer switching costs, efficient scale, or a network effect.

By focusing on high-quality companies, investors shift much of the burden of value creation — and therefore of capital appreciation — onto the businesses themselves. We concentrate on owning 20 to 30 such companies.

Stewardship and the alignment of interests

High-quality businesses must also be led by officers who act in the long-term interest of shareholders, since their decisions ultimately determine the value of the enterprise. We assess their track record of capital allocation, and examine remuneration and incentives.

Over time we have developed a clear positive inclination towards family businesses or the owner-operator model, where management shares a common stake in the enduring prosperity of the company. The same logic applies to the managers of irreplaceable savings, as is the case for Oyat and its employees that are materially invested alongside clients.

Valuation discipline

We seek to acquire high-quality businesses at a suitable margin of safety relative to our own fair value estimates, thereby minimising the chance of permanent capital impairment. We typically trim positions as prices converge on fair value, and sell outright when prices become unreasonably high.

Market inefficiency

Market inefficiencies do exist, and we deliberately target the less efficient corners. Most participants are fixated on the near term, so our long-term focus places us in a less competitive space. Our global scope allows us to look in foreign markets where fewer investors are attentive. Given our relatively small size, we can place a measured emphasis on smaller capitalisation companies, a segment less contested by large institutions. More broadly, unexciting businesses — often found in fairly mundane places — are more likely to be mispriced.

A fundamental understanding of risk

Over recent decades, investment management has drifted from a judgement-based discipline toward a supposedly scientific process built on theory and mathematical models. The careful weighing of qualitative and quantitative considerations about an uncertain future has increasingly been displaced by spreadsheets, statistical risk models and compliance procedure. Theories such as the Efficient Market Hypothesis and Modern Portfolio Theory dominate industry thinking, assuming that markets are perfectly efficient, that investors need only consider expected return, risk and diversification, and that risk equals volatility around average returns.

We have a problem with using such assumptions to guide the management of savings. We disagree that markets are perfectly efficient at all times, and we disagree more strongly still with treating investment risk as a purely quantitative matter of volatility. Seen through the eyes of a business owner, investment risk is about competitive rivalry, market obsolescence, financial and operating leverage, customer concentration, supply chains, regulation, and other such fundamental considerations. That is the perspective on risk we try to adhere to. And in a market that does not always reflect equilibrium prices, exploiting risk–reward asymmetry is precisely what investment management is for.

Risk control

In keeping with our primary objective, risk control is one of the cornerstones of our philosophy and process. It is comparatively easy to make above-average gains by taking excess risk, particularly in buoyant markets; the real skill is to generate strong performance with risk firmly under control. Over time, this leads to more consistent results across market cycles.

Risk control does not mean risk avoidance. To generate returns, one has to take risk. The key is to bear it intelligently. We focus on idiosyncratic risks that we can understand and assess probabilistically, that present a clear risk–reward asymmetry, and that we can adequately diversify within a portfolio.

Why we own gold

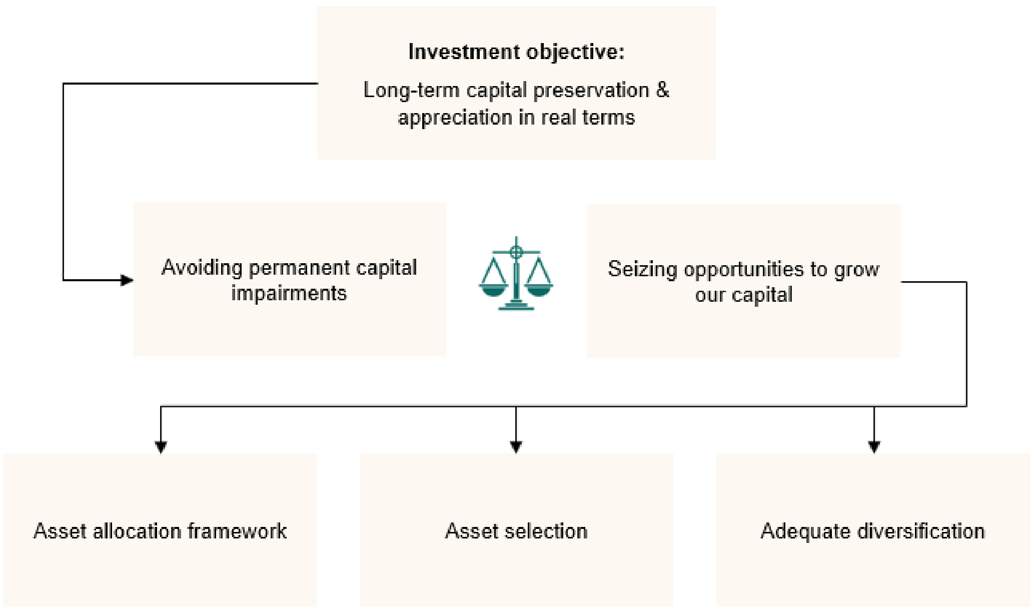
Our ownership of physical gold is motivated by two considerations. First, to own a hard currency in reserve that adequately acts as a store of value. Second, to create a potential hedge against the risks facing investors today — including the frailties of the global monetary and financial system, of which inflation is a manifestation, as well as geopolitical turmoil. Gold's characteristics can be summarised as scarcity, permanence and independence; in various ways these properties enable it to preserve purchasing power over the long term, and tend to make its price dynamics counter-cyclical to conventional financial assets.

We therefore see gold as both a hard currency we can hold in reserve and exchange for other assets as opportunities arise, and as a structural counterbalance to the equity portfolio — one that tends to hold its value, or gain, in the regimes where equities alone tend to struggle. The vast majority of our precious metals exposure takes the form of physical gold, complemented by a much smaller allocation to precious metals companies.

Our philosophy is applied through a structured and repeatable process. Investors are prone to a wide range of cognitive biases that cause them to deviate from rational judgement, and we are thoroughly aware of our own susceptibility to them. The process described here combines human expertise with quantitative guardrails, so that we can concentrate on what we are actually able to control: making sound investment decisions.

The overall framework

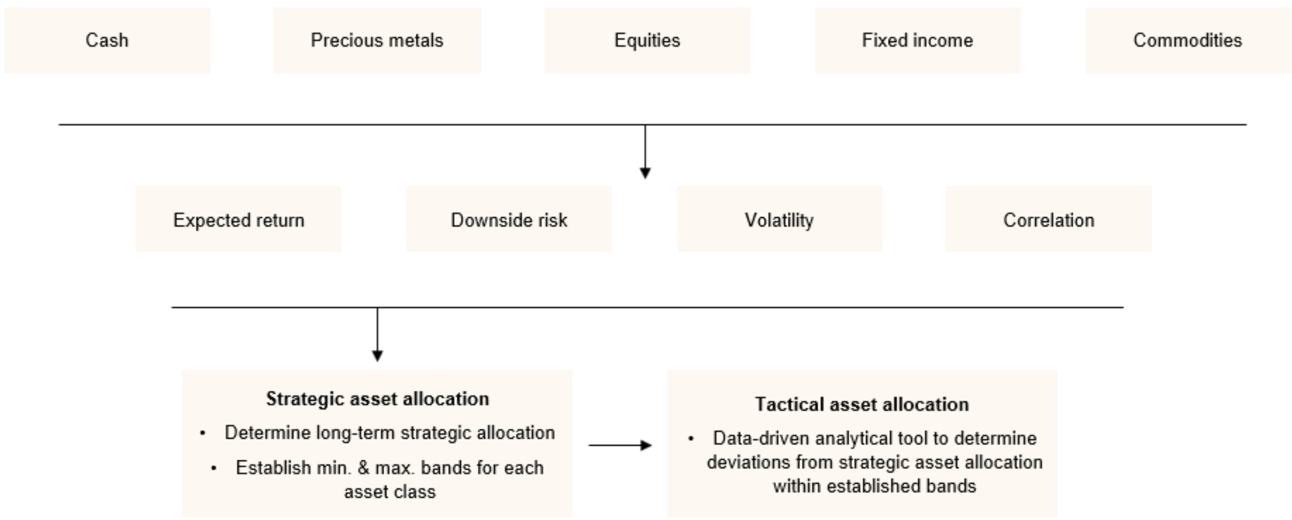
Everything begins with the investment objective: long-term capital preservation and appreciation in real terms. That objective resolves into two continuous and simultaneous tasks — avoiding permanent capital impairment, and seizing opportunities to grow capital. Neither can be pursued in isolation. They are held in balance through three disciplines: the asset allocation framework, asset selection, and adequate diversification.



Asset allocation framework

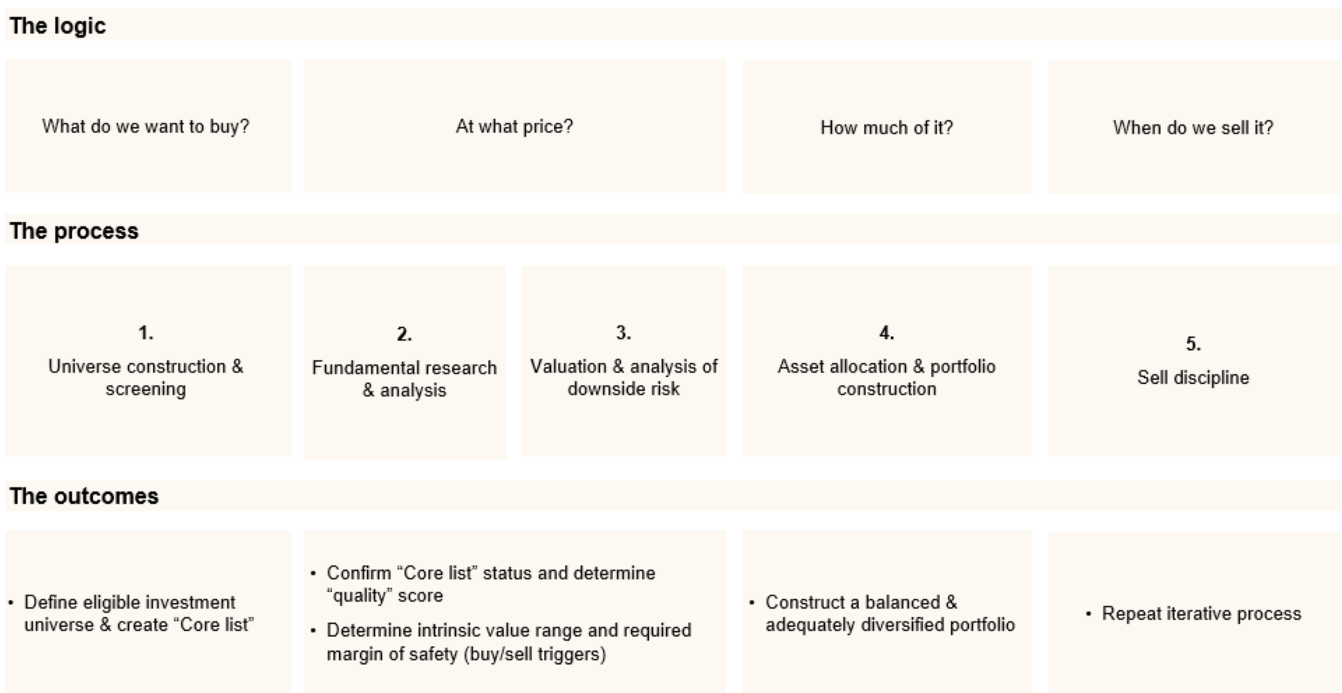
We invest across five asset classes: cash, precious metals, equities, fixed income and commodities. Each is assessed on the basis of expected return, downside risk, volatility and correlation to the others. At present the portfolio holds no fixed income; it remains an investable asset class should conditions warrant it.

From that assessment we determine a strategic asset allocation — the long-term intended shape of the portfolio — and establish minimum and maximum bands for each asset class. Within those bands, a data-driven analytical tool guides tactical deviations from the strategic allocation. The bands are the guardrail; the tool informs judgement within it.



Asset selection

Asset selection answers four questions in sequence: what do we want to buy, at what price, how much of it, and when do we sell it. The five-step process below is how we answer them, with the final step addressing the question of when we sell.



The process in detail

1 Universe construction & screening

A broad universe of thousands of global equities is scrutinised for quality — with a focus on return on equity and return on invested capital — as well as sustainability of returns and balance sheet strength. Consistency matters as much as level: we look for expected double-digit ROIC sustained over many years. Approximately 400 companies pass this initial filter to form our "Core list".

2 Fundamental research & analysis

Companies on the Core list are then rigorously researched. We assign quantitative scores across metrics including competitive position, growth, management stewardship, value creation, financial health, cash flow and identified risks, in order to produce an overall "quality" score.

3 Valuation & analysis of downside risk

We combine several valuation approaches, centred on our own discounted cash flow models but also incorporating multiples and external analysis. The resulting valuation is combined with the quality score to complete our profile of the company, and to establish the intrinsic value range and the margin of safety required before we will buy.

4 Asset allocation & portfolio construction

Approximately the top 25 companies are selected, with a view to balanced overall portfolio composition. Position sizing is critical and too often ignored; we apply a structured, quantitative approach that combines our quality, risk and valuation assessments, with individual weights generally between 2% and 10%. With the equity portfolio assembled, we then balance its risk profile using differentiated asset classes such as precious metals and commodities, layering these in on top of the high-conviction equity core.

5 Sell discipline

We trim positions as prices converge on our fair value estimates, and exit entirely when prices become unreasonably high, when the original investment thesis is impaired, or when a materially better opportunity presents itself.

Adequate diversification

Diversification is an important principle, but we dig deeper to determine how much is genuinely appropriate. We want diversification without dilution. The evidence is clear that the benefits of diversification recede beyond roughly 25 positions in a portfolio; beyond that point, additional names dilute conviction without materially reducing risk. Concentrating on a select list also allows us to research each holding deeply and to understand it thoroughly — which is itself a form of risk control.

Diversification, in our approach, therefore operates on two levels: within the equity portfolio, across businesses with genuinely different drivers; and across asset classes, where precious metals in particular behave differently from equities in the environments that matter most.

Monitoring

The portfolio is monitored continuously and adjusted as needed to optimise exposure. Our structured and quantitative process guides intellectual decision-making, reducing the risk of bias while keeping us focused on the keys to capital preservation and appreciation. The process ends and begins again with disciplined monitoring and the continuous pursuit of improvement.

A note on benchmarks

We do not manage the Fund’s assets in relation to a benchmark. Portfolio construction is driven by our own assessment of quality, valuation and risk, not by the composition of an index, and we do not seek to control tracking error against one.

We are nonetheless free to compare ourselves to a benchmark in order to illustrate the defining characteristics of what we have built. Measured against a global equity index, the portfolio’s lower sensitivity to equity market movements is precisely the characteristic we intend it to have.

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