



# Focused Compounding Capital Management

**“We spend 99% of our time FOCUSED on the 1% of stocks every other fund ignores”**

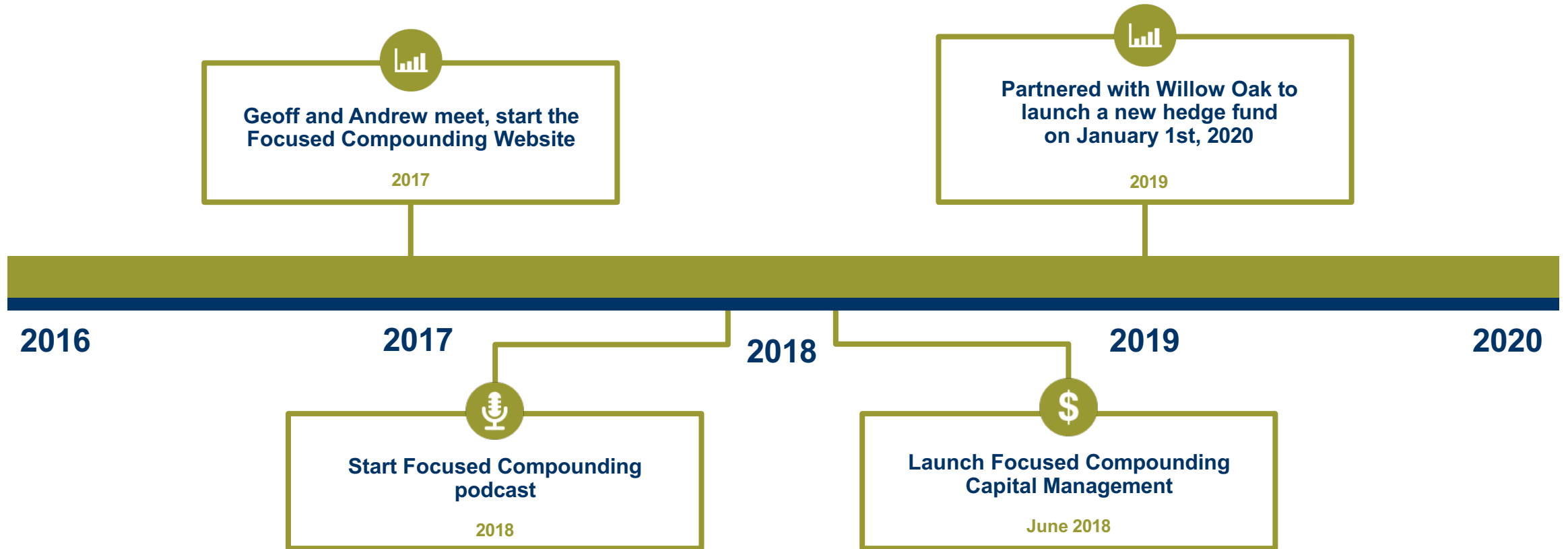
# **About Focused Compounding**

**The Focused Compounding Fund is a long only, equity focused hedge fund located in Dallas, Texas**

**We are focused on identifying high-quality companies in pockets of the market where large pools of capital (mutual funds, hedge funds, pension funds, etc.) cannot or will not consider**

**We believe fishing in this “overlooked” pond presents an opportunity to earn outsized returns for our investors**

# Focused Compounding's History



# We Focus on Overlooked Stocks



**How many of these stocks do you actually recognize?**

*(Randomly generated sample from Focused Compounding's current watch list)*

# What We're Looking For

- | **Overlooked Stock:** Low share turnover percentage, low beta, low institutional ownership, low analyst coverage, small market cap, low float, on a minor exchange, wide bid/ask spread, low dollar volume traded each day
- | **Predictable:** Long historical streaks of no EPS losses, positive FCF in most years, low volatility in margins, low volatility in returns on capital, very few year-over-year sales declines, low cyclicality
- | **Solid Industry:** Low competition / market structure = monopoly, duopoly, or oligopoly / high retention rates / low market share volatility / price not main competitive factor / low foreign competition / localized markets
- | **Solid Competitive Position in the Industry:** Good absolute market share, good relative market share, brand competitive with market leaders, costs competitive with market leaders, margin volatility not higher than industry
- | **Price We're Willing to Pay:** Think P/E of 13 (our rule of thumb is that we're not going to pay more than about 13 times normalized after-tax cash earnings - Basically: We need to KNOW FCF Yield + Growth will be > 10%)

# Three Boxes That Need to Be Checked

**If a Stock Doesn't Check 3 boxes, we're unlikely to buy**

| Profitable almost every year

| ROE: 10%+ almost every year

| EPS this year > EPS last year almost every year

# Why We Like Less Liquid Stocks

Quartiles		Low Liquidity	Mid-Low	Mid-High	High Liquidity
Micro-cap	Geom. Mean	15.36%	16.21%	9.94%	1.32%
	Arithm. Mean	17.92%	20.00%	15.40%	6.78%
	Std. Dev.	23.77%	29.41%	35.34%	34.20%
	Avg. No. Stocks	323	185	132	103
Small-cap	Geom. Mean	15.30%	14.09%	11.80%	5.48%
	Arithm. Mean	17.07%	16.82%	15.38%	9.89%
	Std. Dev.	20.15%	24.63%	28.22%	31.21%
	Avg. No. Stocks	196	193	175	179
Mid-cap	Geom. Mean	13.61%	13.57%	12.24%	7.85%
	Arithm. Mean	15.01%	15.34%	14.51%	11.66%
	Std. Dev.	17.91%	20.10%	22.41%	28.71%
	Avg. No. Stocks	141	171	197	233
Large-cap	Geom. Mean	11.53%	11.66%	11.19%	8.37%
	Arithm. Mean	12.83%	12.86%	12.81%	11.58%
	Std. Dev.	16.68%	18.34	18.34%	25.75%
	Avg. No. Stocks	83	194	238	227

Data from page 25 of the Yale International Working Paper "Liquidity as an Investment Style" – by Roger Ibbotson et al. (2012)

- | **Focus:** “Overlooked” stocks
- | **Definition:** Stocks where: 1) the percent of shares outstanding traded each year is abnormally low and 2) the beta is abnormally low
- | **Style:** Value / Quality
- | **Size:** Nano-cap, micro-cap, and small-cap stocks (smallest current stock: \$118 million market cap; largest: \$683 million market cap)
- | **Concentration:** 5-6 positions
- | **Volatility:** Low beta
- | **Geography:** Developed markets (currently: U.S., Netherlands, and Norway)





**Willow Oak**  
ASSET MANAGEMENT

## Fund management services provided by Willow Oak include:

- Administration
- Compliance
- Investor Relations
- Marketing
- Infrastructure
- Support

# **Infrastructure and Support**

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- | **General Partner:** Focused Compounding Capital Management, LLC
- | **Fund Management Services:** Willow Oak Asset Management, LLC
- | **Prime Broker:** Robotti Securities, LLC
- | **Administrator:** NAV Consulting, Inc.
- | **Auditor:** WIPFLI, LLC
- | **Legal Counsel:** Alston & Bird LLP

# **Fund Terms - Qualified Investors Only**

- | **Portfolio Manager:** Geoff Gannon
- | **Minimum Investment:** \$2,000,000
- | **Management Fee:** None
- | **Incentive Fee:** 15% of profits
- | **High Water Mark:** Yes
- | **Redemption:** Quarterly with 90-days' written notice

# Managed Account Terms

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| **Portfolio Manager:** Geoff Gannon

| **Minimum Investment:** \$250,000

| **Management Fee:** 2.5%

| **Incentive Fee:** None

| **High Water Mark:** No

| **Redemption:** Daily liquidity

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