Pinyon Pine Capital, LLC

Introduction

Pinyon Pine Capital (PPC) is a registered investment advisory firm. The firm has three investment strategies: long-only, highly concentrated long-only (HCLO), and hedged. The primary objective of the long-only and HCLO products is to deliver for its clients, over the long term, superior returns versus the equal-weighted total average return (including reinvestment of dividends) of the S&P 500 and Russell 2000 Indices using a concentrated investment approach. We contrast our long-only and HCLO returns with the total average return of the S&P 500 and Russell 2000 indices because both strategies have consistently contained a relatively even mix of large, mid, and small capitalization stocks. The purpose of our hedged strategy is to offer our long-only product some downside protection or portfolio "insurance" from market risk. Our long-only and hedged strategies seek to be highly tax efficient.

INVESTMENT PHILOSOPHY

The method to selecting stocks on the long side involves looking for companies that have high free cash flow yields (typically 10 percent or higher) and also possess real ability to grow their cash flow consistently over time. PPC believes there are a limited number of really good long ideas. Taking concentrated positions in these ideas provides the best opportunity to produce superior returns and meet the long-term objectives of its philosophy. The alternative, running a highly diversified, long portfolio, tends to produce results comparable to the stock market indexes. In that case (once fees and the tax efficiency of most actively managed funds are considered), one should probably consider investing in an index fund. At PPC, initial position sizes in our long-only strategy will typically run from 5 to 10 percent of clients' portfolios. In PPC's HCLO strategy, initial holding sizes usually range from 10 to 20 percent of clients' portfolios.

Wait for the Fat Pitch

Because valuation is a major determinant for PPC when choosing long positions, catalysts typically occur that are either company specific (such as missing near-term, investor earnings expectations) or market driven (a significant market pull back) in order to create the types of valuations targeted. At the end of the day, the focus is on buying mispriced assets. Specifically, PPC looks for good companies that have a proven history of generating free cash flow and that PPC believes will be able to continue to generate sustainable free cash flow in the future.

Tax Efficiency Matters

PPC is a long-term investor and expects to have an investment thesis that takes more than one year to play out. The typical holding period of a long position is approximately three years. Thus, PPC expects to manage accounts in our long-only and hedged strategies in a highly tax-efficient manner. We do plan to rotate holdings in our HCLO portfolio to insure that the HCLO positions remain the subset of securities from our long-only product that we believe offer the most significant long-term appreciation. Although we anticipate a number of our HCLO positions will be held for multiple years, this strategy is not focused on tax efficiency like our long-only and hedged products.

The object in managing the long-only portfolio is to generate long-term capital gains for clients as opposed to short-term capital gains. This is a strategic advantage to PPC's investment approach. When one considers tax-adjusted returns, the benefits from generating long-term capital gains versus short-term capital gains on similar returns can be significant. Furthermore, PPC also employs various tax harvesting strategies in our long-only and hedged products to generate capital losses and offset capital gains.

The chart below provides an example of the impact that can result from investing in a tax efficient manner. The chart is comprised of three hypothetical long-only portfolios that each start with $100,000 and are managed over a two-year period. Portfolio 1 assumes all the positions are held for two years and then sold and taxes are paid at the long-term capital gains tax rate of 23.8 percent. Portfolio 2 assumes the same 10 percent rate of return used in Portfolio 1; however, Portfolio 2 assumes 100 percent portfolio turnover each year where taxes are assessed at the short-term capital gains tax rate of 37 percent and paid each year. Finally, Portfolio 3 is similar to Portfolio 2, where a 100 percent portfolio turnover is assumed each year and a short-term capital gains tax rate of 37 percent is applied. The rate of return of Portfolio 3 has been adjusted so that the after-tax compound annual growth rate (CAGR) is equal to that achieved in Portfolio 1.

Portfolio 1 illustrates how dramatic the differences in after-tax returns can be when taxes are deferred and long-term capital gains tax rates are applied versus paying taxes at short-term capital gains rates. Even though Portfolios 1 and 2 employ the same rate of return, the after-tax CAGR of Portfolio 1 is 7.7 percent versus the 6.3 percent CAGR achieved in Portfolio 2. Portfolio 3 shows that in order to achieve the same after-tax CAGR of Portfolio 1, which is managed in a highly tax-efficient manner, the rate of return must be raised to 12.2 percent from 10 percent used in Portfolio 1. PPC is a strong advocate of tax-efficient investing and believes investors should focus on after-tax returns unless investing a tax exempt or tax-deferred vehicle.

Benefits of Investing in a Tax-Efficient Manner

	Portfolio 1	**Portfolio 2**	**Portfolio 3**
Starting Value of Account	$ 100,000.00	$ 100,000.00	$ 100,000.00
Return of Portfolio	10.0%	10.0%	12.2%
Period (in years)	2	2	2
Assumed Short-Term, Capital Gains Tax Rate	37.0%	37.0%	37.0%
Long-Term, Capital Gains Tax Rate	23.8%	23.8%	23.8%
Year 1 Value of Account Before Taxes	$ 110,000.00	$ 110,000.00	$ 112,228.93
Year 1 Taxes Paid	$ -	$ 3,700.00	$ 4,524.70
Year 1 Value of Account After Taxes	$ 110,000.00	$ 106,300.00	$ 107,704.22
Year 2 Value of Account Before Taxes	$ 121,000.00	$ 116,930.00	$ 120,875.30
Year 2 Taxes Paid	$ 4,998.00	$ 3,933.10	$ 4,873.30
Year 2 Value of Account After Taxes	$ 116,002.00	$ 112,996.90	$ 116,002.00
After-Tax CAGR	7.7%	6.3%	7.7%

PINYON PINE CAPITAL LONG-ONLY STRATEGY

Research (the funnel approach)

PPC is a fundamental research organization; this is the firm's strength and value-add in the investment management process. However, the ability to successfully research a particular company is only one component in creating an effective and profitable portfolio management approach. The most important decision PPC makes each day involves the allocation of the firm's valuable research time and energy. Thus, PPC thinks of its research approach on the long side as a funneling process, where PPC seeks to eliminate wasted time and energy on companies that will never be client securities.

The first step in the process to properly allocate resources is to utilize proprietary screens employing a robust database that enables PPC to isolate companies with specific characteristics. PPC has developed and refined (over many years) a significant number of long screens that enables PPC to partially automate the process of finding the companies that the firm will devote its energy to research. Once the screening process has isolated companies with characteristics that meet PPC's investment standards, financial statement analysis further refines the universe of companies. PPC creates proprietary company models encompassing the entire income statement, balance sheet, and cash flow statement for multiple years. These spreadsheets will highlight specific financial ratios and return calculations that PPC deems important. At this point, if the company still fits PPC's criteria for a long portfolio candidate, then a more exhaustive process is begun. This involves reading the recent 10K's and 10Q's, speaking with and/or meeting with management and, in certain cases, doing independent channel-based research on the company and their products.

Stock Selection

When selecting individual stocks, PPC focuses on companies with a long-term ability to generate significant levels of after-tax free cash flow. Free cash flow is defined in two ways: (1) cash flow from operations (expressed on a company's cash flow statement) minus capital expenditures, and (2) net income plus depreciation and amortization minus capital expenditures.

Perhaps as important as a company's ability to generate free cash flow, is the ability to reinvest that cash flow and generate appropriate returns on invested capital. Hence, PPC seeks companies that sell at low multiples of free cash flow and can produce acceptable and sustainable returns on invested capital.

Price and valuation are a major determinant in choosing long positions, and PPC seeks to identify businesses that PPC believes have little long-term downside risk. Sustainable free cash flow yields in excess of 10 percent are a valuation guideline consistent with PPC's strategy. Ideally, PPC looks for companies that have 10 percent or higher free cash flow yields and also possess some real ability to grow their cash flow consistently over time. If PPC is able to recommend this company when investor sentiment has created doubts about either the sustainability of the cash flow or the company's ability to grow, this often creates an opportunity for exceptional returns over a roughly three year time horizon. In many ways this is the centerpiece of PPC's investment philosophy. PPC finds companies where current investment views and sentiment can be proven wrong, ideally over the next 12-24 months. When the company demonstrates that the cash flow stream is not only sustainable but also growing, PPC generally sees substantial multiple expansion and this contributes to superior share price returns.

Additionally, PPC seeks to find companies where the high cash flow generating ability of a business has been masked by poor decisions of senior management. In instances of this nature, PPC looks to find companies where a "change thesis" can be developed and where the inherent (but potentially masked) value of the company can be realized. PPC looks for several things to occur that might include a change in senior management, some form of asset rationalization, the sale of a division, and/or exiting unprofitable or low margin business. As well, PPC looks for redeployment of free cash flow to produce superior returns on invested capital. This will often involve some change to the capital structure that will benefit shareholders. Most often this takes the form of a substantial pay down of existing debt or a significant share repurchase.

Ideas Separate from the Crowd

The takeaway message from PPC's investment method is that it adheres to a rigorous process that is repeatable. It is driven by proprietary screens, and most of the names that make it into clients' portfolios are internal and flow from this process. PPC is an independent organization that is completely self-reliant when it comes to generating investable long ideas. This results in a unique, differentiated portfolio that allows PPC to ignore the daily chatter and gossip endemic in the investment community and focus on PPC's investment process.

Risk Management

PPC's long portfolio has relatively high concentrations in individual equities and high exposure represented by full investment. These characteristics present risk to any portfolio. PPC relies on its initial, underlying fundamental research for selection of long positions and its ongoing due diligence of these securities to reduce risk. Furthermore, PPC believes its investment approach of investing in companies that are cash flow positive and that trade at low multiples relative to their cash flow generating abilities helps to mitigate downside risk. PPC does incur market risk, and as a result, PPC's accounts may lose money in periods of broad stock market declines.

PINYON PINE CAPITAL HCLO STRATEGY

Specialized Strategy

This is a specialized strategy targeted for institutional and sophisticated individual investors. This product contains a subset of the positions within our long-only product. The subset of securities contains the positions from our long-only product that we believe offer the most significant upside potential over an approximate three-year period. Given the highly concentrated nature of this product, we expect it to be more volatile than our long-only strategy. However, we believe it will produce impressive long-term performance, in excess of the returns generated in our long-only product, for those who can tolerate elevated levels of volatility.

HCLO Characteristics

Below is a brief outline of the typical characteristics of our HCLO offering.

Exposure: Target maximum market exposure of +95% to 100%.

Positions and Concentration: Hold 5 to 8 long positions. Initial position sizes to range from 10% to 20%. PPC's maximum initial position size is 25%. PPC's policy is not to allow a position to increase in excess of 40% of the portfolio. A position would be reduced at or before reaching 40% of the portfolio.

Typical Holding Period: 3 years

Risk Management

Our philosophy on risk management related to our long positions is detailed above under the Risk Management section of our long-only strategy. We manage our long-only accounts with relatively high concentrations in portfolio securities and high exposure represented by full or near full investment. These features are amplified in our HCLO strategy where concentrations in portfolio securities are considerably greater. Thus, we anticipate greater volatility and risk with our HCLO strategy versus our long-only strategy, especially over the short term.

Pinyon Pine Capital, LLC

PINYON PINE CAPITAL HEDGED STRATEGY

Downside Protection

The purpose of our hedged strategy is to offer our long-only product some downside protection or portfolio "insurance" from market risk. To accomplish this, we short equity exchange traded funds (ETFs) to hedge a portion of our long exposure. We believe the appropriate benchmark to gauge the performance of this product is the HFRI Equity Hedge (Total) Index. Our hedged strategy contains the same long positions, in the same relative sizes to one another, as our long-only product. We expect our hedged strategy to encompass the following exposure guidelines:

- gross exposure (long equity exposure plus short equity exposure) to range from 120 percent to 180 percent, and
- net exposure (long equity exposure minus short equity exposure) to run from 20 percent to 80 percent.

However, there may be circumstances where our gross and net exposure are greater or less than these guidelines due to market conditions, the perceived opportunities in long positions, or other factors.

Hedging and ETF Selection

We normally expect to construct our hedge based on the market capitalization exposure of our long-only product. For example, if our long-only product consisted of 35 percent small capitalization stocks (market capitalizations less than $2 billion), 35 percent mid-capitalization stocks (market capitalizations of between $2 billion and $10 billion), and 30 percent large capitalization stocks (market capitalizations greater than $10 billion), we might seek to somewhat replicate this market capitalization exposure with ETFs. In the preceding example, we may allocate the short exposure in our hedged strategy among ETFs as follows: 35 percent with a small capitalization ETF, such as IWM (IShares Russell 2000), 35 percent with a mid-capitalization ETF, for instance IJH (IShares Core S&P Mid-Cap), and 30 percent with a large capitalization ETF, possibly SPY (SPDR S&P 500). Also, we plan to short broad-based, liquid ETFs that are relatively easy to borrow and have relatively low borrowing costs.

Net Exposure Determination

Our net exposure will be determined based on our perception of the opportunity and valuation of our long-only product and market dynamics. For example, if the valuations of our long positions generally seem exceptionally compelling following a large decline in the stock market, where the price of our long positions declined due to the pullback in equity markets, we may decide to increase our net long exposure near the upper end of our general exposure guidelines. Conversely, if the valuations of our long positions increase substantially following a strong period in the stock market, where the price of our long positions have risen due to an exuberant stock market, we may decide to reduce our net exposure near the lower end of our general exposure guidelines. In a typical environment, where we like the valuations of our long positions, but don't find the valuations either exceptionally compelling or extended, we might expect our net long exposure to fluctuate around the 50 percent level.

Tax Harvesting Strategies

Combined with our usual multi-year holding period in our long positions, associated with low portfolio turnover, which is intended to result tax efficiency, we will employ tax harvesting strategies in our hedged product on the short side. For example, in a rising stock market environment, where we are accruing tax losses in the ETFs that we are short, we will periodically switch from one ETF to another ETF that is not substantially similar in order to generate short-term capital losses. These capital losses can then be used to offset any realized capital gains in the long portfolio. Being able to easily employ this strategy is one of the advantages to shorting ETFs versus individual stocks.

Risk Management

PPC's hedged strategy seeks to reduce some of the downside market risk associated with our long-only product. However, there are also risks incurred in shorting ETFs. If the ETFs that are being shorted appreciate in value at a faster rate than our long portfolio, then the hedged strategy can lose money in a rising stock market environment. In a declining stock market, our hedged product is expected to perform better or incur smaller losses than those realized in our long-only strategy. However, the hedged strategy may still generate significant losses in a declining stock market. Also, a margin account is required for the hedged strategy in order to facilitate shorting. Anytime a margin account is employed, there is the potential for losses to exceed the net asset value (NAV) of the account. This is not the case in either our long-only or HCLO strategies, where cash accounts are utilized, and losses cannot exceed the NAV of the account.

To help mitigate some of these risk to our hedged strategy, we generally seek to keep our long exposure at similar levels to those of our long-only product. Because our long-only product does not employ margin, its maximum exposure is 100 percent. Thus, the long exposure of our hedged product will usually not be significantly above this level. This will help to reduce risk and volatility versus utilizing significantly higher long exposure than that employed in our long-only strategy. Also, by mostly utilizing broad-based market ETFs on the short side, there is less risk of our shorts dramatically increasing in price versus what can occur from shorting individual stocks or narrowly targeted sector ETFs.

PINYON PINE CAPITAL ATTRIBUTES AND BACKGROUND

Performance-based Fees

PPC's strategies include an asset-based management fee plus a performance-based fee.

Long-only and HCLO Pricing

Our long-only and HCLO strategies have identical fees. We receive an asset-based management fee that is billed quarterly in arrears at end of each quarter on a prorated basis at the annualized rate of 1.25 percent. We also receive a performance fee calculated and payable in arrears as of the end of each calendar year. The performance fee is equal to twenty percent of the net (after accounting for the management fee) excess return of the account over the equal-weighted total average return of the S&P 500 and Russell 2000 Indices. The management fee will be applied to the weighted average of the funds invested during the calendar year (or other investment period). The quarterly management fee will be determined by calculating the year-to-date management fee and then subtracting the management fee(s) paid in the prior quarter(s), except for the first quarter, where it will coincide with the year-to-date calculation. The performance fee, if any, will be applied to the weighted average of the funds invested during the calendar year (or other investment period) minus the management fee. The process of utilizing the weighted average of funds invested allows for additions of funds under management and withdrawals of funds.

Hedged Pricing Fees

Under Hedged Pricing Fees, we receive an asset-based management fee that is billed quarterly in arrears at end of each quarter at the annualized rate of 1.25 percent. We also receive a performance fee calculated and payable in arrears as of the end of each calendar year based on the performance of the account for the year. The performance fee is equal to ten percent of the net (after accounting for the management fee) return of the account. The management fee will be applied to the weighted average of the funds invested during the calendar year (or other investment period). The quarterly management fee will be determined by calculating the year-to-date management fee and then subtracting the management fee(s) paid in the prior quarter(s) except for the first quarter where it will coincide with the year-to-date calculation. The performance fee, if any, will be applied to the weighted average of the funds invested during the calendar year (or other investment period) minus the management fee. The process of utilizing the weighted average of funds invested allows for additions of funds under management and withdrawals of funds.

Also, the hedged pricing fee structure includes a high-water mark. During any year or total partial year (if the account was started after the first of the calendar year) that the account earns a negative net return, no performance fees can begin to be assessed in the subsequent period(s) until the net return of the Account has first earned back the prior period(s) negative net performance.

Separate Accounts: Control and Visibility

Clients' money will not be aggregated and will be run as separate accounts. This means there is no ability for PPC to access clients' money. In addition to maintaining control of their funds, investors will have total visibility into their portfolio.

Investor Qualifications and Terms

Because there is a performance fee component to each of PPC's strategies, you must be a qualified client to enter into a contract with PPC. This generally means that you have a net worth (or together with your spouse have a net worth) of at least $2.1 million excluding your primary residence or have at least $1 million under PPC's management. The minimum initial investment size for new accounts under each of PPC's strategies is $1 million. PPC is designed for investors who are interested in committing capital for multiple years. Its investment style, targeted holding period, and tax efficiency benefits are designed for long-term investors.

The Founder, Principal, and Portfolio Manager

Jason Williams is the founder, principal, and portfolio manager of PPC. Since Jason began his investment career in 2000, he has operated in diverse market environments. Jason was a Partner at San Francisco Bay Area hedge funds Botti Brown Asset Management and Emrose Capital. Prior to his hedge fund career, Jason was an associate equities analyst at A.G. Edwards & Sons in St. Louis. He has spent 18 years in the investment business and is a well versed practitioner of the investment approach PPC employs. He also collaborates on long ideas and research with colleagues and investment professionals that he has had long working relationships with and who share a similar value-oriented investment philosophy.

SUMMARY

The primary focus and goal of PPC's long-only and HCLO product is to deliver for its clients, over the long term, superior returns versus the equal-weighted total average return of the S&P 500 and Russell 2000 Indices using a concentrated strategy. The purpose of our hedged strategy is to offer our long-only product some downside protection or portfolio "insurance" from market risk. Our long-only and hedged strategies seek to be highly tax efficient. PPC's process utilizes a fundamental, research-based approach to investing and employs proprietary screens to identify investment candidates. Jason Williams is a seasoned investment professional who comes to work every day because he loves what he does.

CERTAIN DISCLOSURE

Information pertaining to PPC's advisory operations, services, and fees is set forth in PPC's current disclosure statement which is on file with the California Department of Business Oversight and a copy of which is available from PPC upon request. As part of its investment management process, PPC reviews and considers third-party research, including materials obtained from other investment professionals. Different types of investments and/or investment strategies involve varying levels of risk, and there can be no assurance that any specific investment or investment strategy (including the investments purchased and/or investment strategies devised by PPC) will be either suitable or profitable for a client's or prospective client's portfolio.