Pinyon Pine Capital, LLC

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Overview

- Pinyon Pine Capital (PPC) is a registered investment advisory firm

- PPC offers three investment strategies: long-only, highly concentrated long-only (HCLO), and hedged

- Primary Objective
    - Long-Only and HCLO products: 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 approach.
    - Hedged product: offer our long-only strategy some downside protection or portfolio "insurance" from market risk.

- Performance-based fees

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Investment Philosophy

- Identify long candidates that have high free cash flow yields (typically 10% or higher) and possess the ability to grow their cash flow consistently over time
- Long positions will be concentrated. In the Long-Only strategy initial position sizes will typically run from 5% to 10% of portfolios. In the HCLO product initial holding sizes will usually range from 10% to 20% of portfolios.
- The focus is on buying mispriced assets
- In the Long-Only product, manage accounts in a highly tax efficient manner with a typical holding period of 3 years
- In PPC's Hedged product, employ tax harvesting techniques on the short side

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PPC Research (the funnel approach)

- Fundamental, research organization
- Research approach is a funneling process to eliminate wasted time and energy on companies that will never end up in clients' portfolios
- Proprietary screens used to generate investment ideas
- Proprietary quarterly and annual models with specific financial ratios and return calculations encompassing the income statement, balance sheet, and cash flow statement are made on promising companies produced from PPC's screens
- After passing PPC's screens and modeling a more exhaustive process starts that includes:
    - Reading the recent 10K and 10Q
    - Speaking and/or meeting with management
    - And, in certain cases, doing channel-based research on companies and products

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Stock Selection

- Focus on companies that both generate sustainable free cash and redeploy cash flow at attractive returns on invested capital
- Valuation is a major determinant in choosing longs
  - Sustainable free cash flow yields in excess of 10% are a valuation guideline
- Opportunities are often created when doubts arise about sustainability of the cash flow or growth potential
- Exceptional returns can be realized over a roughly 3 year time horizon from multiple expansion when a company demonstrates cash flow stream is both sustainable and growing
- Look for "change thesis" such as new management team, asset rationalization, or changes in the capital structure
- Long-Only portfolios generally include 10 to 20 long positions; HCLO portfolios normally contain 5 to 8 long positions

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Ideas Separate From the Crowd

- PPC adheres to a rigorous stock selection process that is repeatable
- Most names that make it into clients' portfolios are internally generated
- Unique, differentiated investment portfolio that allows PPC to ignore the investment community chatter and gossip

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The HCLO 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.
- **HCLO Typical Characteristics:**
    - *Exposure:* Target maximum market exposure of +95% to 100%
    - *Positions and Concentration:* 5 to 8 long positions; initial position sizes 10% to 20%; maximum initial position size 25%; maximum position size 40%
    - *Typical Holding Period:* 3 years

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The Hedged Strategy

- Offer our Long-Only product some downside protection or portfolio "insurance" from market risk by shorting equity exchange traded funds (ETFs)
- Hedged strategy to encompass the following exposure guidelines:
  - Gross exposure (long equity exposure plus short equity exposure) to range from 120% to 180%
  - Net exposure (long equity exposure minus short equity exposure) to run from 20% to 80%
- Hedged strategy contains the same long positions (same relative sizes to one another) as Long-Only product
- Typically expect to construct our hedge based on the market capitalization exposure of our Long-Only product
- Short broad-based, liquid ETFs that are easy to borrow with low borrowing costs
- Net exposure determined based on opportunity and valuation of Long-Only product and market dynamics
- Employ tax harvesting strategies on the short side by switching from one ETF to another ETF that is not substantially similar in a rising stock market in order to generate short-term capital losses

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Risk Management

- Long-Only and HCLO products:
  - High concentrations in securities and high exposure represented by full investment present risk to any portfolio. These features are amplified in our HCLO strategy where concentrations in portfolio securities are considerably greater.
  - Underlying fundamental research of long portfolio securities and ongoing due diligence of securities reduce risk
  - Targeting cash flow positive companies trading 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
- Hedged strategy:
  - Seeks to reduce some downside market risk in Long-Only product
  - Risk incurred in shorting ETFs and hedged product can lose money in a rising stock market if ETFs appreciate faster than long portfolio
  - Margin account used in hedged strategy; losses can exceed account value
  - To help reduce risk and volatility of hedged product keep long exposure similar to Long-Only product and utilized broad-based market ETFs on the short side

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Performance-based Fee Options

- PPC Long-Only and HCLO strategies have identical fees that include a 1.25% asset-based management fee billed quarterly in arrears and an annual performance fee equal to 20% of the net excess return over the equal-weighted total average return of the S&P 500 and Russell 2000 Indices.

- PPC's Hedged strategy includes a 1.25% asset-based management fee billed quarterly in arrears and a performance fee equal to 10% of the net return. The Hedged strategy includes a high-water mark.

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Separate Accounts: Control and Visibility

- Clients' money will not be aggregated and will be run as separate accounts
- Investors maintain control of their funds
- Investors have total visibility into their portfolio

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Investor Qualifications and Terms

- Because there is a performance fee component to each of PPC's pricing alternatives, 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 in each of PPC's strategies is $1 million.
- PPC is designed for investors who are interested in committing capital for multiple years, as its investment style, targeted holding period, and tax efficiency benefits are designed for long-term investors.

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Jason Williams: Founder, Principal, and Portfolio Manager

Jason has 18 years of experience in the investment business and serves as the principal and portfolio manager of PPC. Jason was a partner at San Francisco Bay Area hedge funds Botti Brown Asset Management and Emrose Capital. Prior to his hedge fund career, he was an associate equities analyst at A.G. Edwards & Sons in St. Louis. Before joining A.G. Edwards, he conducted post doctorate research in chemical physics at the University of Maryland, College Park. He received a PhD (1998) and MS (1996) in chemistry from the University of California, Irvine and a BS (1994) in chemistry from California State University, Chico.

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PPC's Structure and Information

- Brokerage Accounts/Custodian for Separate Accounts: Interactive Brokers, Charles Schwab, or BTIG (custody of assets in BTIG brokerage accounts: Goldman Sachs or Pershing LLC)
- Legal Counsel: Jack Martel of Ragghianti Freitas LLP
- Operational Support: Irene Chou, CPA; ILC Consulting
- Investor Qualifications: Qualified Client Status
- Contact Information:

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CERTAIN DISCLOSURES

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.

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