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## **Key Facts Summary:** Winston Heritage Quality Value Investment Strategy

*The purpose of this document is to help KAM South clients learn more about how their money is invested. We want our clients to fully understand the disciplined investment tenets we follow to enable them to make informed decisions.*

### **Investment Objective**

Capital Appreciation: By definition, capital appreciation will have a higher than normal price risk volatility.

### **Investment Strategy**

KAM South executes a fundamental, bottom-up, primary research-centric investment discipline which emphasizes the purchase of individual publicly traded companies which exhibit solid growth characteristics. Our main goal is to purchase a target company at a discount to fair value with QUALITY (sustainable competitive advantage) and VALUE (price discounted to its private market value).

### **Individual Security Selection**

#### **Four Step Disciplined Process:**

- Step 1:** Analyze growth characteristics: historical revenue pattern, trend line, percentage growth. Identify if it is strong, consistent and growing faster than economy.
- Step 2:** Analyze profit characteristics: Historical gross profit margin, operating margin and EPS. Establish trend line, direction and consistency. We desire to invest in companies with positive operating leverage and EPS growing in-line or above sales.
- Step 3:** Assess risk and return: We estimate a low and high price target based on historical valuation measures (price-to-sales; price-to-book; price-to-earnings; price-to-cash flow). We then compare the current price to determine if it is trading at a discount to our fair value. By comparing the current price to our estimated fair value, we understand the reward/risk relationship. A 3 to 1 ratio is preferable; companies offering price appreciation at least 3 times the risk.
- Step 4:** Establish SELL targets for each company in the portfolio.

### **Portfolio Management**

Initial portfolio positions are equally dollar weighted. For inclusion in the portfolio, a target company should have a 15% expected rate of return at minimum. Sell targets are continuously monitored and adjusted as business and economic conditions change. However, we have learned over time that "trends in motion" usually stay in motion for an extended period due to a company's sustainable competitive advantage. This point comes in to play from a portfolio construction perspective because we believe in "letting our winners run." We do not manage risk by limiting the size of a position within the portfolio.

### Investment Advisor

KAM South, LLC. Christian G. Koch, CFP®, President and chief investment officer is the portfolio manager.

### Management Fee

Our fee for managed accounts is calculated as a percentage of assets under management at a rate of 1% per year and is payable each quarter.

### Reporting

The custodian will forward monthly statements outlining market value, individual security positions and portfolio activity. On a quarterly basis, KAM South provides a portfolio appraisal and performance history. The investor owns 100% of the securities in the account at all times.

### Separately Managed Accounts

#### Advantages:

- Customization
- Individual stock selection
- Active tax management
- More transparency compared to mutual funds
- Ability to speak to a credentialed advisor about specific investment issues

### Principle Risks

**Equity (Stock) Market Risk:** Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. If you held common stock, or common stock equivalents, of any given issuer, you would generally be exposed to greater risk than if you held preferred stocks and debt obligations of the issuer.

**Sector Focus Risk:** The portfolios may be heavily invested in certain sectors, which may cause the value of its shares to be especially sensitive to factors and economic risks that specifically affect those sectors and may cause the value of the portfolio to fluctuate more widely than a comparative benchmark.

**Non-diversified Risk:** Because the portfolio may invest a greater portion of its assets in securities of a single issuer or a limited number of issuers than a portfolio with diversification limitations, it may be more susceptible to a single adverse economic or political occurrence affecting one or more of these issuers.