Beck, Mack & Oliver LLC

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Investment Objective

Dear Potential Partner,

Beck, Mack & Oliver started investing on behalf of its clients in 1931. For over 90 years, we have served clients responsibly, performed intense fundamental research, and invested successfully through market cycles. The firm remains independent and partner-owned. We concentrate client capital into great businesses that a) can generate economic returns far in excess of their cost of capital over long periods of time, b) are run by special stewards with appropriate incentives, and c) trade at sensible valuations.

As important as our investment strategy is a patient investor base who believes in our long-term approach. To ensure absolute alignment with you, our potential partner, we explain below a few principles that embody our thought process and investment strategy:

Compounding is wonderful.

We want to own quality franchises that harness the magic of compound interest by growing their intrinsic value at exciting rates over long periods of time. We expect our investment returns over time to be driven primarily by the return on incremental capital generated by the underlying businesses themselves; thus, we want to invest in companies staring down long runways to deploy excess cash at sustainably attractive returns. Typically, these businesses enjoy durable competitive advantages that tend to expand over time. Many are run by founder operators with unique methods, a maniacal focus on pleasing customers, an unwavering moral compass, substantial ownership, and a willingness to invest intelligently in the pursuit of long-term outcomes.

A value orientation protects capital through cycles.

We consider ourselves value investors. However, all value considers future growth and reinvestment rates. We hunt for high-quality growth companies at value prices.

Regardless of the type of company we are evaluating, we seek substantial discounts to our estimate of intrinsic value. We insist on a margin of safety that protects client capital when we are wrong. And we will be wrong from time to time. The future is highly uncertain. We budget breathing room to minimize the consequences of our mistakes.

We have navigated crises over the last 90 years in part because we consider risk to be the potential permanent loss of capital, as opposed to lumpy returns. We will stomach lumpiness for outsized ultimate returns. Our independent thinking often expresses a contrarian view. Differentiated returns require not only deviation from the crowd (and the discomfort that may accompany it), but also the humility to recognize when we are wrong (and the discomfort that may accompany that).

Exhaustive primary research yields differentiated ideas and builds conviction.

Our investment team consists of seven portfolio managers. We spend most of our time researching businesses and vetting our conclusions with each other. Deep and collaborative fundamental research produces a few advantages. First, we can look at complex situations that others might overlook. If we can explain in plain terms why something is undervalued, then we may be able to identify misunderstandings. Second, our independent and repeatable research process tends to facilitate conviction. The ability to stand by an independent investment thesis through temporary storms can be extremely valuable over long periods of time. We find that without thorough research within circles of competence, conviction tends to wither under duress.

We seek to identify situations in which the ultimate success of the investment will depend primarily on factors such as a company's competitive advantages, financial prospects, valuation, the long-term growth characteristics of its end-markets, and the quality of its management team. We believe that it is in the evaluation of these and similar factors, which tend to be highly specific to the company and industry under analysis, that we believe our own competitive advantage resides.

Primary research is the cornerstone of our research process. More valuable than anything we may produce in a spreadsheet is a deep understanding of how customers, competitors, suppliers, former employees, and regulators regard a business's position, prospects, and challenges. We mine and grow our networks to reach proprietary contacts who help us uncover the scuttlebutt and isolate the few critical drivers that determine ultimate investment outcomes. Scuttlebutt begets invaluable variant perceptions and the conviction to stick by promising long-term ideas.

A long-term focus affords great advantages.

We may focus on misunderstood, hated or complex situations. Often, these investments can remain under-valued for periods longer than is warranted. We must maintain patience if the prospective long-term return profile stays attractive. It is hard to wait! Human nature craves action, instant gratification, and peer validation. Yet, we think reinvestment risk, or the potential problems with regularly trading one security for another, is largely under-appreciated. Understanding intimately how a business and its managers react to stress is a huge advantage through cycles, in part because we may take the opportunity to add to a position when others are nervous. When we own great franchises with defensible market positions that are run by quality operators, we consider long-term prospects and not short-term vagaries. For this reason, our portfolios are concentrated. A typical new account may hold 20-25 positions. We firmly believe a concentrated collection of quality businesses owned over a long period enjoys the best chance of outperforming a diversified index. That it is so very hard to wait and so very tempting to act is exactly why patience and concentration are great advantages.

The other terrific benefit of a long-term, low-turnover investing strategy is tax and fee efficiency for clients. Over decades, a short-term, trading-heavy strategy needs to deliver performance far in excess of a long-term, low-turnover strategy in order to arrive at the same after-tax compounded return for the underlying client. To wit, we have owned several wonderful businesses for decades and generally turn over the portfolio slowly.

Thank you for learning more about our investment approach. Time is scarce, and we appreciate yours. Strategic alignment with our clients is critical to an extended partnership. If you would like to be part of the investment program described here, please reach out. We are happy to discuss it further!

Sincerely,

Partners of Beck, Mack & Oliver

Firm Snapshot

History

- Founded in 1931, the firm has remained an independent, partner-owned fiduciary providing investment counsel and portfolio management services to its clients, often for multiple generations.

Team

- 21 employees.
- Seven portfolio managers with ~200 years collective investing experience.
- Independently owned by six partners.

Scope

- Assets under management exceed $4.5 billion.
- We primarily employ a long-term, low-turnover, value-oriented strategy in domestic equities. We offer fixed income and cash management capabilities as well.

Objective

- We aim to preserve and to grow the purchasing power of client capital. We look for fundamentally attractive businesses with attractive long-term prospects that are run by exceptional stewards. We act when such ideas trade significantly below our estimate of intrinsic value.

Independence

- Investment Committee debates merits of each name based on proprietary research.
- No affiliation with a financial institution. SEC registered Investment Adviser.
- Work with all major custodians and brokers to accomodate client preference.

Concentration

- Each portfolio manger directs individual account position sizing.
- New accounts draw from a collaborative "Buy List" of our ~35 best ideas.
- Customized separate accounts typically own 20-25 names. The top ten names may constitute half of the account.

Risk Management

- Frequent ad-hoc meetings to discuss opportunities and ideas.
- Weekly investment meetings to review the portfolio and to vet potential investments.
- Monthly portfolio exposure and investment performance evaluations.

Service

- Full service client relationship includes a dedicated client service team that provides portfolio updates, account openings, stock donations, tax disbursements, wire transfers, and tax support.

Performance and Terms

We manage for absolute, risk-adjusted returns. **Since its 1982 inception, our BMO Endowment composite has outperformed the S&P 500, with less volatility** (the number of periods with negative 5-year returns). More recently, as Growth has trounced Value, our performance is well ahead of Value benchmarks yet still in line with the S&P 500.

Annualized Net Returns Through December 31, 2021				
	One Year Trailing	Three Year Trailing	Five Year Trailing	Since 1982 Inception
BMO Endowment	49%	29%	18%	13%
Russell 1000 Value	25%	18%	11%	N/A
S&P 500	29%	26%	18%	12%

Service Providers	
Lawyer	Seward & Kissel
Auditor	KPMG

Management Fees
1.00% for assets below $5 million
0.75% for assets between $5-10 million
0.50% for assets over $10 million

Investment Process

Idea Generation

- Curiosity is the ultimate driver of idea formulation.
- Read sector-specific publications, discuss trends with industry contacts, traingulate collective learnings, etc.
- Remain open to potential contrarian theses: identification of potential reality-perception anomalies, out-of-favor sectors, near-term headwinds obfuscating a long-term attractive opportunity, etc.
- Screen quantitatively for signs of compounders: improving returns on incremental capital, durable growth, high free cash flow conversion, responsible balance sheets, etc.
- Portfolio managers debate why an idea appears undervalued. Identify the critical research questions to investigate further.

Research Process

- Perform exhaustive underwriting and due diligence.
- Understand key unit economic drivers.
- Analyze heritage and culture. <u>Pursue primary research and "scuttlebutt". </u>Mine our collective network for unique contacts.
- Evaluate moat: pricing power, pace of share gains, returns on incremental capital, scale implications.
- Understand capital requirements and management's ability to allocate capital efficiently.
- Anticipate operating leverage in business and ultimate earnings power.
- Consider pre-mortem outcomes, or how much we lose if we are wrong.

Portfolio Construction

- Portfolio typically consists of <u>20-25 core equity names, pulled from a "Buy List" of ~35 names</u>.
- Funnel hundreds of ideas from the idea stage into a smaller subset of names to research deeply. <u>Typically, we add just 2-3 new names each year. A new name on the "Buy List" requires that a majority of portfolio managers vote to buy the name for their clients.</u>
- Often smaller, off-the-run, under-covered companies with an attractive return profile.
- Position sizes typically range from <u>1-5% at cost</u>.
- Exposure to multiple sectors, but zero emphasis on matching the market or any particular index.
- Monthly discussion of portfolio exposure, on both an individual security and sector basis.

Illustrative Case Study #1

Patience is Required: Blackstone (BX)

- Beck, Mack & Oliver identified the alternative investment management industry as an undervalued, misunderstood and out-of-favor sector with substantial tailwinds driven by the shift of assets into private investments.

Historical Perspective

- Blackstone went public in 2007 at $33 per share. It managed $75bn of asset under management ("AUM") at market peak.
- Over the next five years, **AUM grew by ~3.5x through 2013, yet the stock remained well below the IPO price, allowing Beck, Mack & Oliver to evaluate a potential mispricing**.
- Today, Blackstone's AUM is up >9x from its IPO, and the stock has started to catch up with economic earnings growth.

Reasons for the Mispricing

- Accounting obfuscation: GAAP requires the alternative investment industry to consolidate on balance sheet some of the funds it manages, making GAAP financials irrelevant as a barometer for the true economics of the business. Accordingly, the alternative investment managers report complicated and adjusted financials that are hard to understand.
- Cash flow volatility: The alternative investment managers charge a management fee and a performance fee. While the management fee is easy to model and to predict, the performance fee is lumpy and unknowable. Public markets can overly penalize uncertainty.
- Corporate structure: Furthermore, Blackstone originally organized as a Publicly Traded Partnership that required investors to file K-1s each year. This structure prohibited index inclusion and mutual fund ownership.

The Opportunity

- A long-term secular shift of investable assets to the top alternative investment managers, which drives AUM and earnings significantly higher over time, combined with an unreasonably modest valuation to produce the Lollapalooza effect: a growing cash flow stream and an expanding market capitalization of that cash flow stream.

Patience is Required!

- Patience, discipline, and aligned investment partners are required to stick with the thesis through the noise that typically accompanies misunderstood opportunities.
- For the first few years of our ownership, Blackstone trailed the market. However, consistent growth in AUM and free cash flow, combined with broader ownership after the C-Corp conversion, have produced a **cumulative total return of more than 3x the S&P 500 over an eight-year period**.
- We still think Blackstone's strong growth prospects and reasonable valuation will continue to produce attractive returns in the years ahead.

Illustrative Case Study #2

Greedy When Others Are Fearful: Hilton (HLT) and CAE (CAE_CN)

- Beck, Mack & Oliver identified what could turn out to be a once-in-a-generation type opportunity to invest in high-quality travel and hospitality franchises at significantly discounted prices in the wake of COVID-19.

Historical Perspective

- Beck, Mack & Oliver has long studied and admired several attractive travel and hospitality franchises. Structural tailwinds in the travel and hospitality industries drive above-GDP-type growth. Monopoly and duopoly situations are common in the aerospace industry. The most dominant franchises in the space have enjoyed scale benefits and grown market share.
- We have long studied these industries but had not invested because the best franchises often traded at premium valuations.

Reasons for the Mispricing

- COVID-19 was a rare event that impacted every facet of the economy, but none more so than the travel industry.
- Accordingly, security prices of nearly every travel-related company fell by half or more. Several industry participants owe their survival to government support.

The Opportunity

- While security prices for these businesses fell by half or more, we did not believe that the ***value*** of the businesses decreased by half or more. We concluded that COVID-19 would ultimately subside, and people would resume travel once again.
- We identified two companies that we have long admired as the best available: CAE Inc. and Hilton Worldwide Holdings.
  - **CAE Inc**. is the world's leading manufacturer of flight simulators and provider of pilot training for commercial and military pilots. **Training is time-based (required periodically) and not tied to miles flown; therefore, training has been incredibly resilient over time**. While COVID-19 delayed some training (predominantly related to travel and social distancing restrictions), we estimated the training would resume as soon as any level of flying (including on private jets) resumed. CAE has a largely variable cost structure and entered COVID-19 with a strong balance sheet. The company has made hay in this environment, completing five highly strategic acquisitions at attractive valuations since COVID-19 began. We also expect that COVID-19 will convince more airlines to outsource their training (as opposed to just buying simulators) from CAE.
  - **Hilton Worldwide Holdings** is the franchisor of seventeen leading hotel brands, including its eponymous Hilton brand. There is a long-term trend of hotel owners aligning with brand franchisors due to the benefits that the franchisor can deliver, most notably their loyalty programs, reservation systems, and other technology offerings. While just ~5% of the hotels worldwide wave a Hilton flag, ~20% of the hotels currently under development will wave a Hilton flag as hotel developers (and, importantly, their lenders) increasingly recognize the financial benefits of partnering with a strong hospitality brand like Hilton. The onset of COVID-19 nearly overnight brought occupancy levels at the Hilton Worldwide branded hotels to hardly imaginable lows, but like CAE, Hilton also operates a largely variable cost structure and entered COVID-19 with a strong balance sheet. Despite the disruption, Hilton has continued to grow their room pipeline and is seeing an increase in conversions of independent or competitor-branded hotels to Hilton-branded hotels. Finally, we are big fans of CEO Chris Nassetta.

Greedy When Others Are Fearful / Opportunity Meeting the Prepared Mind

- COVID-19 was a once-in-a-generation event. Investing in travel companies amidst that backdrop was scary and only possible with a) a deep understanding of a company's financial position and long-term prospects and b) an ability to differentiate price versus value and short-term pain versus long-term impairment.
- **To act quickly on opportunities like this, one must be prepared! CAE and Hilton are terrific franchises that we had long admired and studied and then waited patiently to buy**.

We Strive to be Strong Stock Pickers. We Don't Manage to Fit a Style Bucket.

- **<u>We study great franchises and great people and wait for a compelling price</u>**. There are many fantastic companies that we would love to own today at the right price. At the same time, **<u>we never buy something simply because it's cheap</u>** (what Columbia's Bruce Greenwald refers to as "Primitive Value"). We wait for the appetizing intersection of exciting prospects and sensible prices.
- Our steadfast focus remains on the price paid for securities, despite participating in a market where that strategy has not really been rewarded. Still, our performance has kept pace with the S&P 500 over the past 5 years. The goal is absolute, risk-adjusted returns over the long term, not just keeping up with relative, nominal returns in a bull market.
- **<u>Ultimately, we believe price matters</u>**. We submit our own outperformance may come in part from owning securities that evolve from "value stocks" to "growth stocks". This label evolution usually incorporates the Lollapalooza Effect, where we enjoy simultaneous expansion of both free cash flow growth and market capitalization of that free cash flow. Long term holdings that demonstrate this value-to-growth metamorphosis include ROP, DOV and CACC.

Today Smacks of the 2000s Tech Bubble. We Outperformed When the Bubble Burst.

- Today's parallels to the 2000s tech bubble abound. The technology component of the S&P 500 is driving a large portion of index returns. Zero interest rate policy and massive liquidity levitate risk assets, namely unprofitable software businesses. The valuation gap between Value and Growth stocks is at historic extremes again. Folks are quitting jobs to pursue day trading once again. Assurances of legacy technology "disruption" have replaced promises of internet "eyeballs". The technologies have changed, but human nature has not. <u>The Tech Bubble burst in 2000. The S&P 500 fell ~38% from 2000 through 2002 (and 78% peak to trough). Our client accounts fell ~10% over the same period</u> (disclaimer: not all accounts but a representative sample). We have protected capital in times of duress because we don't own the froth and because we care about price. The tech bubble burst in part because the Fed started to raise interest rates from cyclically low levels. The Fed is embarking on the same efforts presently, as it aims to temper inflation; although, pressures to arrest interest rate normalization, to the extent the economy slows or the stock market sells off, might derail the Fed's plan, which just happened during the last tightening cycle of late 2018.
- Price matters. As a tech bubble example, Microsoft was valued at $59.56 at the end of 1999 and traded at a multiple of 129x earnings of $0.35 per share. An omniscient investor would have foreseen that over the next 17 years earnings would be up almost 8x, a fantastic outcome. Unfortunately, over that period of fundamental earnings growth, the multiple compressed, and Microsoft's share price over the entire 17-year period was *flat*. Though an extreme example, it illustrates the danger of following the crowd and paying high prices for even great companies.

Stock Picking Might Matter More Going Forward.

- Now that we are exiting the world's first coordinated worldwide shutdown and supply shock, we experience the unexpected consequences. The free money handed out during the pandemic that made its way into the markets, combined with market structure and index correlations, resulted in enormous dispersion, with extreme overvaluation and foolishness in some corners and great opportunity in others. <u>We believe there are some very attractive opportunities in smaller, off-the-run companies</u>. To highlight the smaller company valuation discount: the S&P 600 is ~35% cheaper than the S&P 500 on a forward P/E basis.
- Over the last 50 years, the S&P 500 has generated an annualized nominal total return of +11.1% and real total return of +7.2%, after inflation. These long-term real returns primarily reflect underlying economic growth, which drives corporate earnings growth and excess capital deployment. Over the last three years, the S&P has generated annualized total returns of +26.1% nominal and +22.7% real. Recent outsized returns reflect valuation multiple expansion, namely driven by modern monetary and fiscal policy. With respect to what overall equity market returns could look like over the next few years, we submit that continued economic expansion and corporate earnings growth will be somewhat offset by a contraction in valuation multiples.
- **<u>Such conditions may be auspicious for stock-picking, as equity valuations will likely matter more in a rising interest rate environment, business quality becomes more important when there are inflationary cost pressures to manage, and potentially heightened volatility could yield more actionable investment opportunities</u>.** Furthermore, quality stock-picking can be more valuable in lower-return environments. When the market zooms by over 20% per year, an investor will do pretty well, even if underperforming by a bit. But if the overall market does not do so well, and if inflation further eats into an investor's real returns, the ability to outperform then becomes more critical to preserving and compounding one's wealth over time. <u>We are still finding attractive high-teens annual return profiles in durable, a-cyclical, and quality businesses</u>. We believe our concentrated portfolio remains materially undervalued, even in a mid-cycle scenario.

Team Biographies

Elizabeth Barney

- B.A. from Duke University in 2003. Ms. Barney joined the firm in 2018 as a portfolio manager and became a partner in 2020. Ms. Barney was a senior analyst at Berkshire Hathaway from 2011 to 2018, a senior analyst at MFP Investors from 2009 to 2010, and a vice president and senior analyst at Eagle Capital Partners from 2004 to 2009.

Bob Beck

- B.A. from Wesleyan University in 1977 and a M.B.A. from the Tuck School of Business at Dartmouth College in 1982. Mr. Beck holds Chartered Investment Counselor and Chartered Financial Analyst designations. Mr. Beck has been a partner of the firm since 1988. Before joining, Mr. Beck held positions at Standish, Ayer & Wood and I.B.M. He is a member of the board of directors of Medrobotics Corp., a surgical robotics company.

Bob Campbell

- B.A. from Williams College in 1970. Mr. Campbell holds Chartered Investment Counselor and Chartered Financial Analyst designations. Mr. Campbell has been a partner of the firm since 1992. Before joining, Mr. Campbell held positions at the Steamboat Group, Fireman's Fund Corp., and U.S. Trust, and was previously a partner of the firm from 1982 to 1986 after joining as a portfolio manager in 1980. Mr. Campbell is Chairman of the board of directors of Enstar Group Limited, a publicly traded insurance and reinsurance company. He has served on Enstar's board since 2007.

Lyman Delano

- B.A. from Trinity College in 1975. Mr. Delano has been a partner of the firm since 2005. Prior to joining, Mr. Delano was a partner at Williams, Jones & Associates. He previously worked at Brown Brothers Harriman & Co. and Bankers Trust.

John Ellis

- B.A. from the University of North Carolina at Chapel Hill in 2003 and a M.A. from the Keenan-Flagler Business School at the University of North Carolina at Chapel Hill in 2004. Mr. Ellis holds Certified Public Accountant and Chartered Financial Analyst designations. Mr. Ellis became a partner of the firm in 2013. Before joining as a portfolio manager in 2010, Mr. Ellis was a senior analyst at Castle Point Capital Management (2008–2010), an analyst at Coliseum Capital Management (2006–2008), an analyst at Goldman Sachs & Co. (2005–2006), and an auditor at Ernst & Young (2004–2005).

Richard Fitzgerald

- B.A. from the University of Chicago in 2004. Mr. Fitzgerald has been a portfolio manager of the firm since 2016 and became a partner in 2018. Before joining, Mr. Fitzgerald worked at Twin Capital Management (2012-2015), Jefferies Investment Advisers (2011-2012,) and Castle Point Capital Management (2008-2010). He also has private equity (Flexpoint Partners) and investment banking (Lazard) experience.

Matthew Greenwald

- M.B.A. from Columbia University in 1983. Mr. Greenwald joined in 2010 as a fixed income specialist. He started at Mitchell Hutchins in 1986 and moved to Oppenheimer Capital in 1989, where he managed fixed income mutual funds, pension assets and individual accounts utilizing taxable, tax-free, and international fixed income securities.

Edward Taylor

- B.S. from the University of Virginia's McIntire School of Commerce in 2008. Mr. Taylor has been a portfolio manager of the firm since 2021. Before joining, Mr. Taylor worked at Banbury Partners (2017-2021), Scopia Capital (2012-2016), Tiger Ratan Capital Management (2011), Castle Point Capital Management (2009-2010), and Lehman Brothers/Barclays Capital (2008-2009).

IMPORTANT DISCLOSURE INFORMATION

This report is confidential and is not to be reproduced or distributed to persons other than the recipient. It is intended solely for their internal use and is not for distribution to a wider audience.

The Beck, Mack & Oliver Endowment Composite (the "Composite"), measures the performance of the Firm's tax-exempt endowment fund accounts whose values exceed $5 million in equity assets under discretionary management. As of December 31, 2021, the Composite was comprised of ten accounts meeting the requisite criteria and had a combined total equity market value of $215.2 million, representing approximately 4.9% of the Firm's assets under management.

The Composite performance results are net of advisory management fees and represent the returns of the equity securities held in the respective accounts only. These performance results reflect the reinvestment of dividends and other account earnings. Returns from 1994 forward are asset-weighted; returns prior to 1994 are equal-weighted. Prior to 2006, accounts included in the composite represented select endowment accounts managed by the Firm. Past performance is not indicative of future results.

For reasons including variances in portfolio account holdings, variances in the investment management fee incurred, market fluctuations, the date on which a client engaged Beck, Mack & Oliver's investment management services, and any account contributions or withdrawals, the performance of a specific client's account may have varied substantially from the Composite's performance results.

Specific companies or securities shown in this presentation are meant to demonstrate BM&O's investment style and the types of industries and instruments in which we invest and are not selected based on past performance. Any reference to past specific recommendations or securities should be viewed in the context presented including the circumstances of market events during that time. Past specific investment advice and past performance of specific positions does not guarantee future results.

Portfolio holdings are subject to change without notice and may not represent current or future portfolio composition. Additionally, the portfolio holding data is for informational purposes only and does not constitute a recommendation of a particular security, nor should it be taken as a solicitation or a recommendation to buy or sell a security.

The S&P 500 is a market value weighted index (the "Index") comprised of 500 widely held stocks. Beck, Mack & Oliver believes the Index is a good indication of changes in stock market conditions based on the average of 500 widely held common stocks. The S&P total return of the Index includes the reinvestment of dividends and interest. The Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 90% of the total market capitalization of the Russell 3000 Index. The Russell 1000 Value Index measures the performance of those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The Composite holdings differ from the composition of the S&P 500 and the Russell 1000 Value Index and do not correspond directly to any such comparative benchmark index. Index information is included to show the general trend in particular equity markets and is not intended to imply that the Composite is similar to the Index either in composition or element of risk, and there is no guarantee that the return of the Composite will exceed the return of the Index. The future volatility of the BM&O portfolios may be significantly different than the volatility of the indices presented.