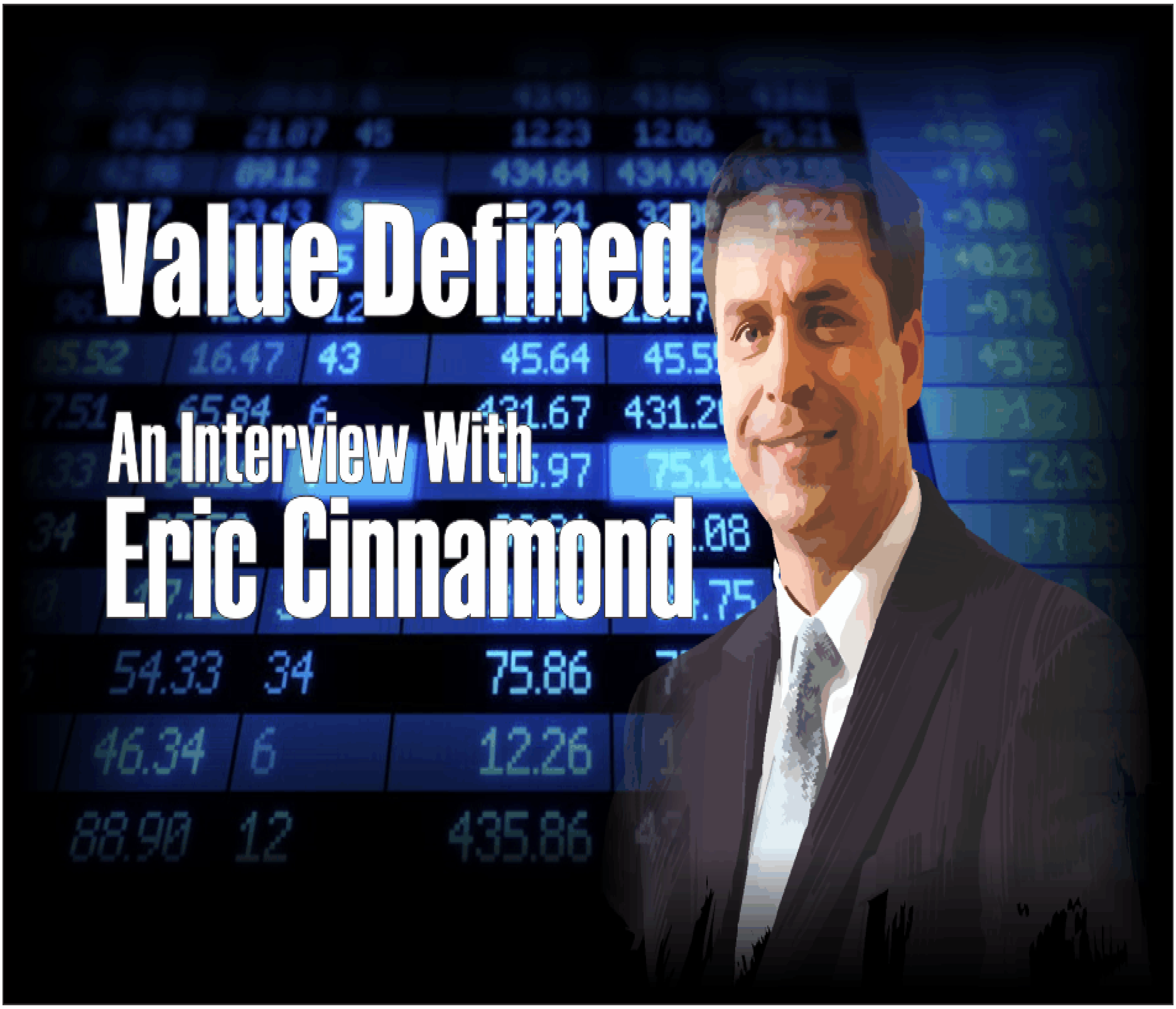

> *?Instead of relying on central banks as the foundation of my risk mitigation strategy, I plan to remain committed to my absolute return process and discipline.? ?Eric Cinnamond*

The world?s oldest investment philosophy, *buy low and sell high*, is not only the most logical but it is also most neglected when it matters. Outside of the financial markets, we seek deals on everything. We drive past three gas stations to find one that is a nickel cheaper. We shop at the Costco in the next town instead of the grocery store around the corner. We haggle with car dealers for hours to save a few hundred dollars. Juxtaposed to rational consumer behavior, investors frequently take the opposite tack. Interest in buying stocks and many other financial assets tend to rise as prices increase and decline when they get cheaper. Toilet paper, gasoline, and most other consumer items in which we seek the best price lack potential financial rewards. Said in current jargon they do not provoke FOMO or the ?fear of missing out? in us. This condition which preys on hope and greed is a trap that drives investors to pay top dollar for some assets. It is said that being a contrarian when markets are at major turning points can be lonely. To help those of you currently

in this camp we introduce the rationality of professional value investor Eric Cinnamond (EC). In answering questions we posed to him, Eric provides insights into how he thinks about investing as well as the current investment environment. While he may not win a popularity contest, the logic he shares is irrefutable and extremely valuable. Eric puts out a free investment letter that we consider a must read. His insight into small cap companies and the broader macro messages we can glean from these companies is invaluable. **For access to his commentary, please email Eric directly.**
Biography- Eric Cinnamond, CFA

> *Eric Cinnamond, CFA, was most recently a Vice President and Portfolio Manager at River Road Asset Management, LLC. Prior to this, Eric was a Vice President and Lead Portfolio Manager of the small-cap strategy at Intrepid Capital Management Inc. which he joined in 1998. Previous to that he held similar roles at Evergreen Asset Management, Aston Funds - ASTON/River Road Independent Value Fund, and the asset management arm of Wachovia Corporation, formerly First Union National Bank. Eric is a member of the C.F.A. Institute having received the Chartered Financial Analyst designation in 1996. Eric received an M.B.A. from the University of Florida and a B.B.A. in Finance from the Stetson University.*

Q&A - Eric Cinnamond What is your investment worldview?

> ***EC:*** *?I am a small cap absolute return investor. My goal is to generate attractive positive returns relative to the risk assumed over a full market cycle. To do this, I follow some basic, but historically effective guidelines.* ***First, when getting paid to assume risk, take it.*** *Every cycle I?ve found there are periods when valuations are attractive and investing opportunistically and aggressively is necessary.•**Second, do not overpay.*** *Over the past three market cycles (including the current cycle), equity valuations have reached very expensive levels that, in my opinion, have not properly compensated investors for the risk assumed. In effect, near valuation peaks, future returns are often inadequate, and the potential for permanent losses to capital are elevated. In such periods, instead of staying fully invested, I attempt to avoid large losses by holding cash and waiting for an improved opportunity set.* ***In conclusion, my investment process is flexible, opportunistic, and often requires considerable discipline and patience****.?*

Compare your style of investing to the more common passive - 60/40 approach.

> ***EC:*** *?Most passive and relative return styles of investing tend to remain fully invested throughout a market cycle. My strategy is much more price and risk sensitive.* ***Valuation, or what I?m paying for an investment, is very important to me. As such, during periods of inflated valuations, my process often requires me to avoid risk and remain patient.*** *Conversely, passive investors with fixed asset allocations often assume market risk throughout the entire market cycle. During periods of expensive valuations, instead of assuming significant market risk, I?ll assume career risk and incur an opportunity cost. Until the market cycle ends, it isn?t knowable if remaining patient and avoiding overpaying was the right course of action. Over the past two cycles ending in 2000 and 2009, my absolute return approach worked well by allowing me to mitigate losses and eventually invest opportunistically. However, the current cycle (2009-2018) remains intact and remains too early to determine if the absolute return path was correct, in my opinion.?*

Can you explain what you mean by ?I?ll assume career risk and incur an opportunity cost??

__EC:__ ?The willingness to assume career risk is similar to the willingness to look different from your peers and benchmarks. I have found there were times during my career when it was very important to look differently. In 1999 technology stocks were the largest weights in many of the benchmarks, but were also the most expensive! By avoiding technology stocks in 1999, my relative performance suffered. In fact, in 1999 I was one of the few portfolio managers to lose money. This was quite an achievement, or underachievement, as the Russell 2000 increased 20% in 1999, with the NASDAQ up 85%! For portfolio managers, large performance dispersions such as these can increase the risk of losing assets under management (AUM) and ultimately, your job. Hence, the term, career risk. My absolute return process has historically caused me to incur considerable AUM and career risk. As such, I've avoided managing money with an emphasis on maximizing AUM. Instead, my goal is focused on achieving an adequate absolute return on investments over a market cycle. If market conditions warrant that I am unable to do that, I'll sell overvalued equities and raise cash. __And in extreme cases (2016), I'm comfortable with $0 AUM or returning capital.__ While remaining patient and holding cash is often a necessary part of my process, it is not risk-free. Holding cash can result in significant opportunity cost, especially•in sharply rising equity markets. However, during periods of excessive overvaluation, I believe opportunity cost is preferable to overpaying and risking substantial losses to capital. __Significant losses resulting from overpaying can be much more damaging to a portfolio, and in some cases, can be permanent.__ Conversely, opportunity cost is often temporary, and can be quickly recovered once valuations revert and opportunities return.?

How would you characterize current markets and contrast that with a time when you thought them meaningfully different?

__EC:__ ?Broadly speaking, this is the most expensive small cap market I?ve ever seen. My possible buy list is trading at over 30x earnings and 2.5x sales. This is very expensive and suggests large potential losses assuming valuations normalize. Most of the businesses I follow are mature small caps with slow to moderate growth rates. They should not command these type of valuations, in my opinion. Although small caps were expensive near the peaks of the past two market cycles, the current environment of overvaluation is much broader. In 1999 there were large pockets of opportunity and undervaluation in small-cap stocks. In 2007 overvaluation was more widespread, but there remained some pockets of value where an absolute return investor could allocate capital. This cycle, overvaluation has become much more widespread. You can see this in many median valuation measures, which are all near or higher than previous market cycle peaks. __I often ask, if we can all agree that 2000 and 2008 were bubbles, how can we not agree that current valuations are as well??__

In your opinion, what are the implications of the damage that would occur in the event of a 2000/2008 market collapse? What do you think the odds of that occurring are?

__EC:__ ?Given current valuations, an end of the cycle decline similar to 2000 and 2008 is a real possibility. Will the market crash, go higher, or will we have a decade of stagnant markets that allow fundamentals to catch up with price? I don?t know for certain. __However, I?m not aware of a market cycle with valuations as high as today?s that did not end with meaningful declines.__ I believe the end of the current market cycle, and its resulting losses, will be partially determined by the effectiveness and ability of central banks to respond to declining asset prices. While many investors assume central banks will come to the rescue during the next meaningful market decline, I believe there are significant risks to relying on the Federal Reserve?s ?put option.? For *example, in an environment with rising inflation, a weakening dollar, and a declining bond market, will central banks be able to bail out markets with another round of asset purchases (QE)? It?s a good question and one I would be asking myself if I was fully invested.* ***Instead of relying on central banks as the foundation of my risk mitigation strategy, I plan to remain committed to my absolute return process and discipline.*** *Currently, that process is keeping me out of the markets until prices and opportunity sets change.?*

Summary

With a large holding of cash and few opportunities to invest wisely, Eric chose of his own accord to close his fund and return investor capital in 2016. Essentially he deemed that the small-cap market, in which he specializes, offered no value. He is currently patiently watching the market for signs that value will return. What truly sets Eric apart is his ethical judgment regarding his willingness to assume career risk as opposed to imposing undo market risk on his clients. While most managers go to lengths to rationalize their holdings and are content clipping a paycheck, Eric, in good conscience, could not buy overvalued stocks offering paltry long-term returns (and large downside risk) for his clients. In time, markets will correct, and valuations will normalize. When this occurs, we have no doubts that Eric will be in a great position to once again manage a portfolio and take advantage of prices that will be on sale. **After all, isn?t it *low* prices we should be chasing?**