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# ST. JAMES INVESTMENT COMPANY

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At St. James, we employ an **absolute return mindset to long-only value investing**. As fundamentally focused equity investors, we seek to identify good business models with high barriers to entry trading at substantial discounts to our conservative estimate of fair value. Finally, we contend that **entry price is a significant determinant of return**.

We ignore Wall Street research and our approach is not constrained by market size. Our **independence, patience** and **clearly defined process** drive the investment returns we seek for ourselves and our clients.

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## INVESTMENT STRATEGY

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At the core of our approach is the fundamental belief that the **price we pay for an investment determines the return**. Further, trying to keep pace with the market in all environments likely promotes poor decisions and increases the probability of losses. By focusing on the St. James process, positive outcomes over complete market cycles emerge.

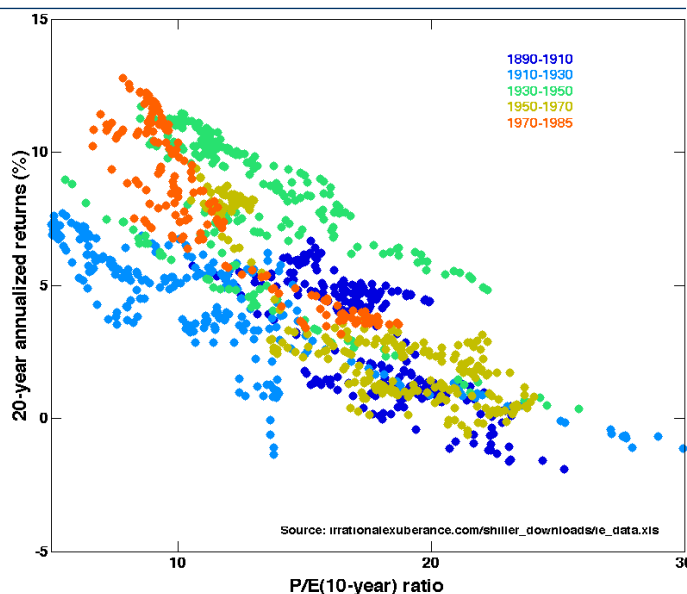
Importantly, buying an asset at fair value will only generate an average return. By contrast, we invest in proven businesses trading at a discount. As fair value is a moving target subject to uncontrollable variables, we deploy capital only when a margin of safety offers us sufficient protection and investment return potential.

## THE IMPORTANCE OF ENTRY PRICE

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Buying good assets at cheap prices is the oldest and most successful approach to investing. The chart to the right is from Robert Shiller's 1999 book, "Irrational Exuberance." Robert Shiller is a Yale professor who developed the CAPE (Cyclically Adjusted P/E ratio).

Going back to 1890, each dot represents the monthly value of the stock market (color coded for the era), plotted against the subsequent 20-year annualized return. The relationship is simple—the cheaper the market (lower P/E ratio), the better the investment return during the subsequent 20-year period. **Value matters for the long-term investor.**



Source: Robert Shiller's 1999 book "Irrational Exuberance".

## DIFFERENTIATORS

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Three factors distinguish St. James: **independence, patience, and a clearly defined, consistently applied investment process.**

As a wholly employee-owned independent firm, we proactively identify proprietary investment opportunities and conduct our own research. Original research ensures a thorough understanding of a business, providing us the confidence to invest in contrarian ideas and understand the forces that will either drive a business model forward or slow its progress.

As patient investors, we view each company as an enduring business rather than a string of quarterly earnings projections. Notably, investors' perception of an equity security fluctuate more widely than the underlying fundamentals. Opportunities for the patient investor appear when fundamentals and price diverge.

Our proven and repeatable process assures our clients that we adhere to our core competencies and mitigate behavioral biases that might impair sound decision-making. Although emotional factors can often drive market behavior short-term, investing in a quality business at a compelling price is typically rewarded.

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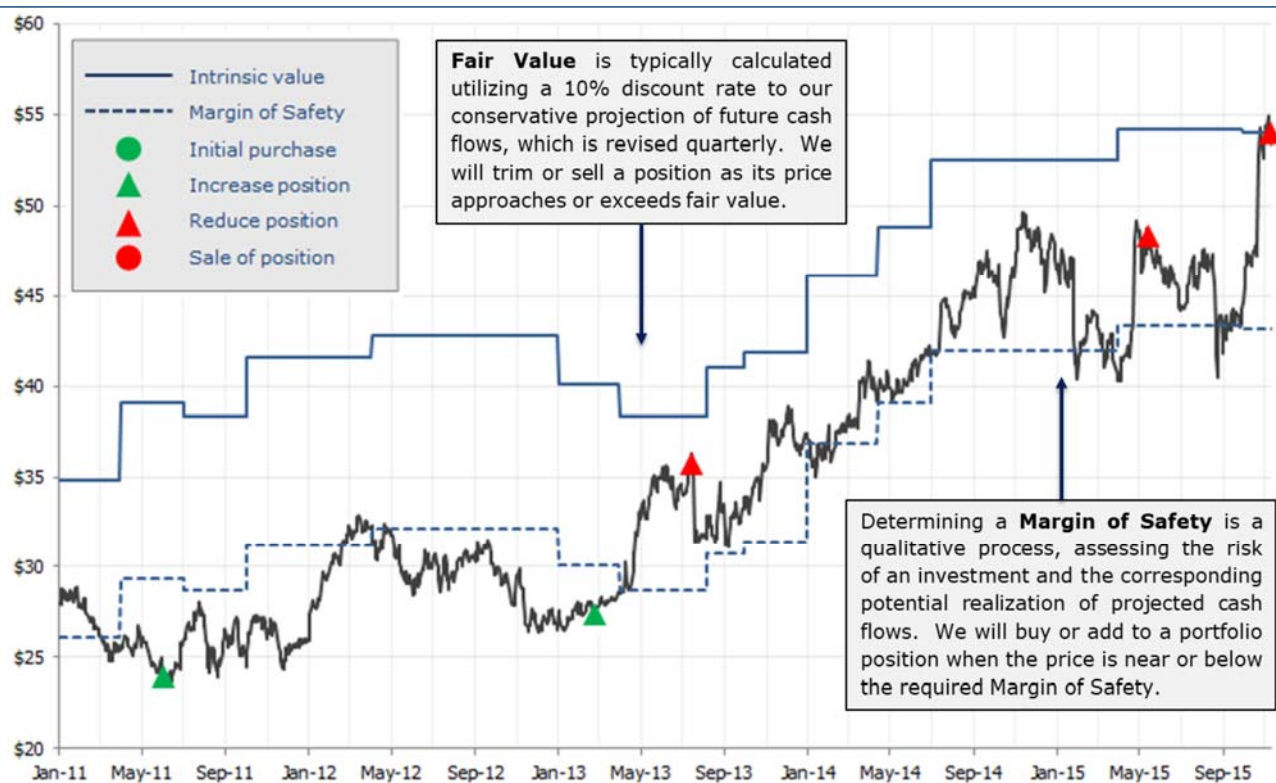
## INVESTMENT PROCESS SUMMARY

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- ⇒ Maintain a **“wish list” of high-quality companies**, characterized by sound balance sheets and enduring business models. We emphasize a high probability of consistent cash flows over a long-term horizon.
- ⇒ For each we **quantify fair value**, applying a 10% discount rate to our conservative cash flow projections.
- ⇒ **Determining a “margin of safety”** is a proprietary qualitative assessment of the risks associated with a company’s business model.
- ⇒ **Portfolio Construction** incorporates weighting each stock consistent with the margin of safety, sizing a position in accordance to the discount to fair value / potential for gain.
- ⇒ **Trim and eventually sell** a stock when price approaches / exceeds fair value or fundamentals change.

## INVESTMENT PROCESS EXAMPLE: MICROSOFT (NYSE:MSFT)

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## RISK MANAGEMENT AND CASH

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We believe our consistency in waiting for compelling entry prices and the corresponding utilization of cash has enabled us to avoid taking “the big hit.” By avoiding significant losses, compounding is not interrupted and market corrections can provide attractive investment opportunities. Of note, **cash is not a tactical market call, but rather a by-product of our process.**

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## TEAM

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### ***Robert J. Mark***

Robert is the cofounder and Managing Member of St. James and serves as portfolio manager for the firm's Core Equity strategy. Robert formerly worked at Goldman Sachs in Houston after graduating from the University of Texas at Austin where he received his MBA in Finance. Robert graduated in 1989 from the United States Military Academy at West Point with a BS in Engineering.

### ***Larry J. Redell***

Larry is a Member of St. James, overseeing operations, marketing and client service. Larry formerly worked in the Private Client Group at Goldman Sachs in Dallas after graduating from University of North Carolina in Chapel Hill where he received his MBA. Larry is a graduate of the University of Texas in Austin with a BBA in Finance.

### ***John M. Wildern***

John brings nearly two decades of experience to the business development and strategic initiatives of St. James. John's background includes UBS, Fidelity and North Coast Asset Management. John holds a B.S. in Economics from Hillsdale College, a M.A. in Economics from the University of Detroit Mercy, and an MBA from the J.L. Kellogg School of Management at Northwestern University.

### ***Amy Burson***

Amy serves as Chief Compliance Officer of St. James. Previously, Amy worked at Liberty Funds Group, Inc., a private CTA manager. She holds a Bachelor of Business Administration degree from Texas Tech University.

### ***Christine Hudspeth***

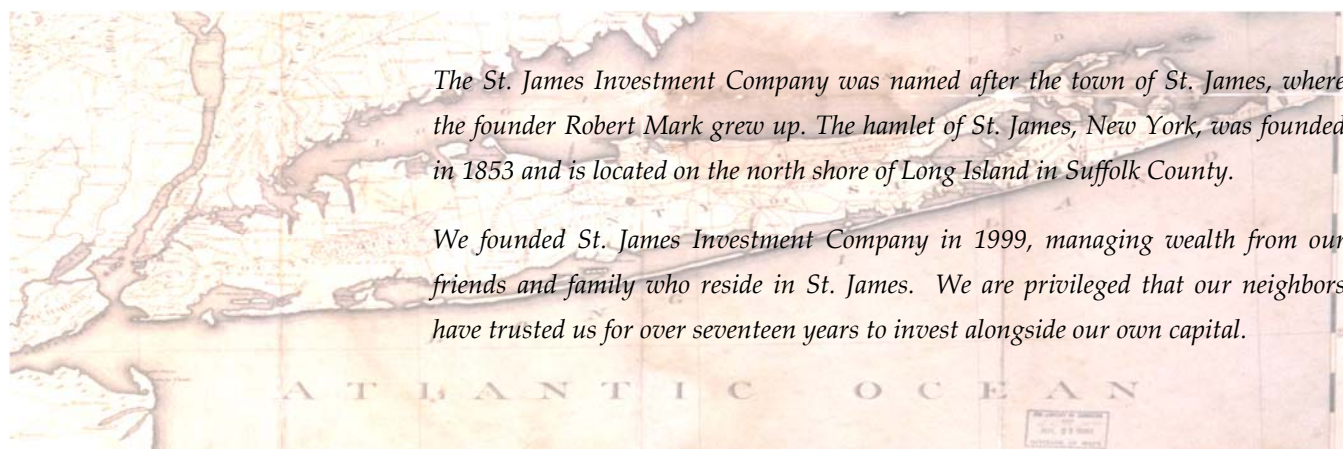
Christine is head trader for St. James. Christine has spent her career in the securities industry, which includes time at Smith Barney, Alex Brown and Montgomery Securities. She holds a Bachelor of Business Administration degree from the University of Texas at Arlington.

### ***Tari Larson***

Tari assists with operations and trading. Tari formerly worked at Franklin Templeton, Bridge Information Systems and Quantitative Research Group. Tari has completed graduate studies in chemistry at the University of Texas at Austin and holds a B.S. in Chemistry from the University of Wisconsin at Madison.

### ***Arturo M. Leal Magana***

Arturo is an analyst at St. James, assisting with securities research and portfolio construction. Arturo graduated from Southern Methodist University with a B.S. in Economics with Financial Applications and a minor in Business.



*The St. James Investment Company was named after the town of St. James, where the founder Robert Mark grew up. The hamlet of St. James, New York, was founded in 1853 and is located on the north shore of Long Island in Suffolk County.*

*We founded St. James Investment Company in 1999, managing wealth from our friends and family who reside in St. James. We are privileged that our neighbors have trusted us for over seventeen years to invest alongside our own capital.*