

## **ACR Equity International Fund Investment Policy**

### **Objectives, Performance, and Benchmark**

The investment objective of the ACR Equity International Fund (“ACREX” or the “Fund”) is to protect capital from permanent impairment while providing a return above both the Fund’s cost of capital and the Fund’s benchmark over a full market cycle.

“Permanent impairment” means a loss of value on the purchase price of an investment that the Advisor, believes will not be recovered together with a reasonable return on the purchase price.

“Cost of capital” refers to the opportunity cost of making a specific investment. It is the rate of return that an investor believes, at the time of an investment, could have been earned by putting the same money into a different investment with equal risk. The Fund’s cost of capital at any time is the weighted average of the cost of capital of the securities that comprise the Fund’s portfolio, as estimated by the Advisor.

“Fund’s benchmark” means the MSCI All Country World Index Ex-U.S. The Advisor has selected the MSCI All Country World Index Ex-U.S. as the Fund’s benchmark because it is a broad proxy for the world equity market excluding U.S.-based companies.

“Full market cycle” means a period of time that includes both an up and down equity market. This period of time is commonly measured from a prior equity market peak to the next equity market peak or from the prior equity market trough to the next equity market trough. Full market cycles are usually measured in years.

### **Security Types, Selection Universe, and the Use of Cash**

#### **Security Types:**

ACREX will predominantly invest in international equity securities where the ACREX investment team believes reasonable business practices and rule of law exist. Additionally, the ACREX Fund has the ability to hold cash in the absence of the ability to be fully invested with the combination of securities aforementioned. In the normal course of business, ACREX does not expect to hold a cash balance larger than 35%, but ACREX has no maximum cash balance limit and during times of high market prices and a dearth of opportunities to invest in companies adhering to the strict requirements of the ACREX investment team, a significantly larger cash balance than 35% is possible. ACREX may also invest in derivatives (options, swaps, forwards, futures) to hedge foreign currency risk, hedge exposure to certain markets and securities or for non-hedging (speculative) purposes. While the Fund’s has the ability to use derivatives in a “speculative” manner, this is not expected to occur.

**Selection Universe:**

ACREX is an international strategy and therefore will invest primarily in the securities of companies located outside of the US. The ACREX investment team considers a company to be located outside of the U.S. if: (i) it is organized under the laws of a foreign country or maintains its principal offices or headquarters in a foreign country; (ii) its securities are principally traded in a foreign country; or (iii) it derives at least 50% of its revenues or profits from goods produced or sold, investments made, or services performed in a foreign country, or has at least 50% of its assets in a foreign country. Companies increasingly generate sales and profit globally and this makes the headquarters or incorporation of a particular company at times arbitrary.

ACREX may invest in companies incorporated in any geographic area (including emerging markets and frontier markets) of any size including large, mid, and small capitalization. Larger companies are more likely to be purchased because of the quality and competitive advantage which size sometimes confers. Companies domiciled in developed countries (e.g., Western Europe, UK, Ireland, Scandinavia, Canada, Japan, Australia, New Zealand, Hong Kong, Singapore) are also more likely to be purchased due to quality requirements related to established rule of law. Additionally, ACREX does not expect to invest more than 35% of its assets in securities of companies incorporated in emerging markets or frontier markets. Quality and valuation remain primary selection determinants.

**Use of Cash:**

ACREX's preference is to remain fully invested in a portfolio of attractively valued quality companies. However, the market environments that provide this opportunity are not always present and therefore cash is oftentimes held. Cash is held when the ACREX investment team is unable to find a prospective investment that adheres to the strategy's demand for a quality company at a quality price. Larger cash balances are oftentimes associated with prices exceeding values in the ACREX selection universe. ACREX's strategy is to own a select group of businesses with the orientation of a private equity investor; it is important to get the right company at the right price, not to merely be fully invested at all times. In other words, the goal of the strategy is to provide equity like returns, not equity like exposure.

ACREX's use of cash is both defensive and offensive. The defensive part is self-explanatory as cash insulates a portfolio from losses during market declines. The offensive part is less intuitive but more important. Having cash on hand provides ACREX the opportunity to take advantage of one-off market or company specific events that it would have missed had it been fully invested. General volatility in market prices creates these ad hoc investment opportunities. Cash has option value that can be exercised by the ACREX investment team at any time in the future for investment opportunities that are significantly more attractive than the ones currently available.

## **Macro-Economic Consideration**

ACREX makes investment decisions from a bottom-up perspective, one company at a time. Relevant questions here are, what does the company do, what is its normalized earnings power, how is it financed and what are its prospects over the next 3-7 years and what are the longer term fundamentals of the business? While ACREX prides itself on its stock by stock analysis, the ACREX investment team does not stick its head in the sand in regards to the global economy. The ACREX investment team recognizes that each company is part of a global economy that has a certain growth rate (either demand or supply led) and that faces certain tailwinds and headwinds. ACREX does not make thematic macro bets or investments, but the ACREX team does actively think about sustainable levels of household and sovereign debt, interest rates, sustainable growth rates, budget deficits, trade balances and many more variables that could affect companies at the individual level. The Macro data uncovered does not drive investment decisions, but informs investment decisions on a company by company basis.

## **Investment Quality**

Portfolio quality requirements consist of a durable fundamental principal value and reliable investment return at the portfolio level. Fundamental principal value refers to the underlying net asset or cash generating value of the enterprise and security, regardless of its short-term market price fluctuations.

Investment-level quality is contingent on the probability, magnitude, and event frequency of an investment's payoff. Higher investment quality is a function of a higher probability of success, a higher magnitude payoff, a lower risk of extreme negative outcomes, and a higher frequency of positive outcomes. Analytical rigor is essential in this regard. The quality of an investment is only as good as the quality of the investment analysis that supports it.

## **Portfolio Diversification**

Policy regarding diversification is to strike a balance between proper diversification and proper concentration. The optimal balance depends on market conditions. In over-valued markets with limited opportunities, a sufficient number of holdings must be balanced with a sufficient margin-of-safety in each holding. In under-valued markets with numerous opportunities, a sufficient number of holdings must be balanced with a limited number of the best opportunities.

The ACREX investment team believes that the 20 investment holding target provides the balance described above. The understanding is that 20 is a target and that the fund might hold fewer or more than that during any given market period. Maximum security position size at purchase is 10%. Maximum industry limit at market is 25%. Maximum levels are rarely expected to be reached and new investments are expected to be initiated in the 3-5% of net asset range. Our requirements at the maximum security position size are exceptional quality, extreme under-valuation and incorporation in a country with strong shareholder rights and rule of law.

ACREX does not have any geographical limits on the fund's investments. ACREX does however expect to limit its emerging markets and frontier markets exposure to 35% and comprise the ACREX portfolio with investments in companies incorporated in at least three different non-US countries. ACREX also expects to have limited investments in countries whose rule of law is deemed to be inferior by the ACREX investment team and/or that have a history of asset confiscation/expropriation or have poor governance. Based on ACREX's quality requirement, the strategy expects to have the vast majority of its assets invested in developed countries with a well-established rule of law and minority shareholder protection (e.g., Western Europe, UK, Ireland, Scandinavia, Canada, Japan, Australia, New Zealand, Hong Kong, Singapore).

The ACREX portfolio will also be managed to diversify the specific risk and return factors of the companies that comprise the portfolio. While a portfolio might adhere to the diversification requirements regarding number of holdings, industry concentration and geographic exposure, there could still be significant overlap in risk factors that create a non-diversified portfolio from a risk perspective. There are no specific guideposts to adhere to this diversification requirement but the inclusion of this item attempts to highlight the focus on making sure that the ACREX portfolio is not overly exposed to one particular factor which could impair the portfolio's return.

### **Holding Period and Sell Discipline**

Holding periods are subject to the characteristics of each investment. The fund generally takes a long-term view of equity investments based on the projected future profits of the underlying business.

The anticipated holding period at purchase is approximately 3-7 years. The ACREX investment team believes this timeframe strikes the right balance between being long enough to accurately distinguish between a company's price and value and being short enough to hold an investment thesis accountable.

While ACREX has a holding target of 3-7 years, the fund can hold investments for significantly shorter or longer time periods. When a thesis plays out before this time frame and the share price reflects this, then there is an opportunity to sell before the expected holding period arrives. Also, if the company continues to create value and is wisely allocating capital then ACREX could have the opportunity to continue holding an investment well past the 3-7 years and benefit from the company's ever improving performance.

Investments are liquidated for four general reasons: (1) an unanticipated change at the company, (2) an error in the analysis of the company, (3) an ability to invest in a superior investment opportunity that requires the sale of a current portfolio holding that has a relatively inferior prospective return, or (4) a share price approaching/reaching/exceeding the estimate of intrinsic value. Regarding the first two conditions, businesses and industries change and analytical errors may occur. Quick action is taken after coming to conclusions in these cases. Regarding the third condition, this situation only occurs if the portfolio is fully invested and a potential new investment opportunity has significantly greater return potential than a current investment holding that otherwise would not have been sold. Regarding the fourth condition, this is the preferred reason for selling an investment.

## **Fund Liquidity, Income and Appreciation**

The alignment of investor objectives and investment characteristics is critical to a successful relationship between a fund manager and fund investors. ACREX is for investors with limited liquidity needs and a long-term investment horizon. ACREX's goal is to invest for total return from both dividends and capital appreciation. The highest return stock portfolio for the risk taken will have some stocks that pay high dividends and others that pay low or no dividends. In the case of no dividend paying stocks, special attention is given to the allocation of capital in lieu of dividends. At times there are companies that have opportunities to earn better returns on capital by retaining capital vs. paying it out as a dividend to shareholders. In these instances the ACREX investment team would encourage the company to not pay out a dividend. The ACREX investment team believes that each company is faced with specific risks and opportunities and therefore a capital allocation policy is not "one size fits all." The ACREX investment team's goal is to focus on the total investment return in each company, not just the dividend return (which is only one component of total return).

The alignment of objectives is extremely important in times of market stress. The nature of market volatility is at odds with rational economic behavior. Rapidly deteriorating market conditions induce fear. In turn, fear often produces selling that generates price declines, and price declines induce more over-reaction. The inevitable result is a downward spiral that can create excellent opportunities for the rational, valuation-oriented investor.

However, if investors panic and sell rather than allowing the fund to buy, we may not be able to take advantage of the opportunities at hand. Far worse, if the fund has to sell during a market panic, not only are we likely to be selling low, but our selling may drive the prices of less liquid fund investments even lower for our remaining investors. Therefore, the goal of the fund is to be comprised of patient investors with long-term investment horizons who understand the fund's investment philosophy and strategy. It is equally imperative that we communicate with our investors every step of the way.

Specific liquidity requirements are discussed in further detail in the Prospectus.

## **Tax Sensitivity**

ACREX includes taxable and tax-exempt investors. Investors are advised to pay special attention to the tax implications of fund investments in the Prospectus. The fund manager views the tax implications of fund investments as if the fund were a person with the tax characteristics of the average fund investor, understanding that the fund manager may have limited information about the tax characteristics of certain fund investors, and that the fund manager's primary concern is to meet its return on investment objectives regardless of tax implications.