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# HAYDEN CAPITAL

Investor Presentation

October 2020

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# Disclaimer

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These materials shall not constitute an offer to sell or the solicitation of an offer to buy any interests in any fund or account managed by Hayden Capital LLC (“Hayden Capital”) or any of its affiliates. Such an offer to sell or solicitation of an offer to buy will only be made pursuant to definitive subscription documents between a fund and an investor.

The fees and expenses charged in connection with the investment may be higher than the fees and expenses of other investment alternatives and may offset profits. No assurance can be given that the investment objective will be achieved or that an investor will receive a return of all or part of his or her investment. Investment results may vary substantially over any given time period.

Reference and comparisons are made to the performance of other indices (together the “Comparative Indexes”) for informational purposes only. Hayden Capital’s investment program does not mirror any of the Comparative Indexes and the volatility of Hayden Capital’s investment strategy may be materially different than that of the Comparative Indexes. The securities or other instruments included in the Comparative Indexes are not necessarily included in Hayden Capital’s investment program and criteria for inclusion in the Comparative Indexes are different than those for investment by Hayden Capital. The performance of the Comparative Indexes was obtained from published sources believed to be reliable, but which are not warranted as to accuracy or completeness. Unless noted otherwise, the returns of the Comparative Indexes presented do not reflect fees or transaction costs, but those returns do reflect net dividends, if any.

# Hayden Capital Overview

**Investment Objective:** Achieve returns exceeding the broader Global Equity Markets (measured by the S&P 500 and MSCI World), over a full market cycle. Hayden Capital seeks to achieve these returns primarily thru publicly traded, marketable securities of U.S. and non-U.S. companies.

- No complex derivatives, “pair-trades”, or significant use of leverage.

**Investment Strategy:** We follow a research-intensive, value-oriented investment process. Our typical portfolio comprises of 6 – 15 high-quality companies, that we have studied for an extensive period.

- We don’t aim to “beta-hedge” our positions, as this typically results in sacrificing long-term gains for reducing short-term volatility. As long-term investors, we would rather have a superior (although lumpy) annual return, than a steady (but mediocre) return.
- In fact, we embrace volatility in most cases as it allows us to purchase companies we like for cheaper.

## Fund Structure:

- **Minimum Investment:** \$100,000 per client
- **Subscriptions / Withdrawals:** Daily
- **Reporting:**
  - Performance available daily
  - Communication from manager at least quarterly
- **Lock-up:** None
- **Custodian:** Interactive Brokers (NASDAQ: IBKR)
- **Fees:**
  - Clients have the discretionary ability to choose between a Management Fee only or a Performance Fee structure (provided account AUM thresholds are met)

## Management Fee Only Option:

Assets Under Management (AUM)	Management Fee
\$250,000 and above	1.50%
\$100,000 to \$250,000	2.00%

## Performance Fee Option (“0.5% + 15% over 5%”):

	Terms
Minimum Client AUM	\$1,000,000 and above
Management Fee	0.5%
Hurdle Rate (Yearly)	5%
Performance Fee	15% of Profits above Hurdle Rate
High Water Mark	Yes

# Firm Management

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## **Fred Liu, CFA**

*Managing Partner*

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Fred Liu is Hayden Capital's founder and portfolio manager. He holds a B.S. in finance and international business from the Leonard N. Stern School of Business at New York University. He also holds the Chartered Financial Analyst (CFA) designation.

Prior to founding Hayden Capital, Fred was a research analyst at New Street Research responsible for covering the cable and satellite industries. Before this, he was the industrials analyst on J.P. Morgan's Small Cap Equity fund, a five-star Morningstar ranked strategy that invested in securities under \$2 Billion in market cap.

Fred purchased his first stock at the age of 11, and has been an avid value investor ever since. He currently resides in New York City.



# Investment Philosophy

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## **We View Stocks As Ownership In A Business:**

- The core of our investment principle is to approach buying stocks as though we were buying the entire business outright and retaining management.
- We consider ourselves first and foremost as business analysts, not stock analysts.
- The true value of a company is the net cash flows expected over its business life, discounted by an appropriate interest rate. Only when a company can be purchased at a significant discount to this calculated value, should an investment be made.

## **Let Volatility Work To Our Advantage**

- On average, individual stocks fluctuate more than 60% in a 52-week period.
- We don't believe volatility equates to risk.
- Volatile markets occasionally offer extraordinary opportunities, and having cash allows us to take advantage of these.
- For this reason, we may hold large cash positions up to 30%.

## **Stay Within Our Circle of Competence**

- We don't claim to be knowledgeable about every industry or investable opportunity. There are simply too many stocks and industries to do so meaningfully.
- Rather, we aim to invest in a few businesses we can understand, while the majority go into the "too hard" pile.
- We think it's best to recognize the boundaries of our knowledge, while always seeking to expand it.

*"You don't need a scale to know that a 350 lb man is fat."  
- Ben Graham, Author of Security Analysis*

# Investment Philosophy

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## **Keep Things Simple – Rationality and Common Sense Can Go A Long Way**

- We believe the simpler the thesis, the better. More complicated investments do not equate to higher returns.
- It seems the investment industry has gotten overly-complicated with enormous spreadsheets and back-tested quantitative models.
- Over-reliance upon these “tools” often results in a false sense of precision, with more time wasted “data-crunching” and less time thinking. This often results in sub-par returns.
- We don’t sweat over whether a business is going to earn \$5 or \$5.25 next quarter. We simply try to focus on finding big gaps between the current price and a conservative estimate of intrinsic value, and are always on the look out for that “fat” opportunity.

## **Concentrate Our Capital In Only Our Best Ideas**

- There are few “high-quality” businesses and management teams in the market – there are even fewer available at favorable prices.
- Fiercely competitive markets combined with finite resources makes it rare to find attractive investments.
- Because exceptional opportunities are rare, we want to make meaningful investments when such opportunities are present.
- We typically invest in 6 – 15 names at any given time.

*“[For the best investments] there usually is a simple thesis that comes through. It doesn't mean a lot of work isn't done, but the basic thesis is clear, straightforward and compelling rather than tweaking a number on page 40 of a spreadsheet.”*

*– Joel Greenblatt, Gotham Capital*

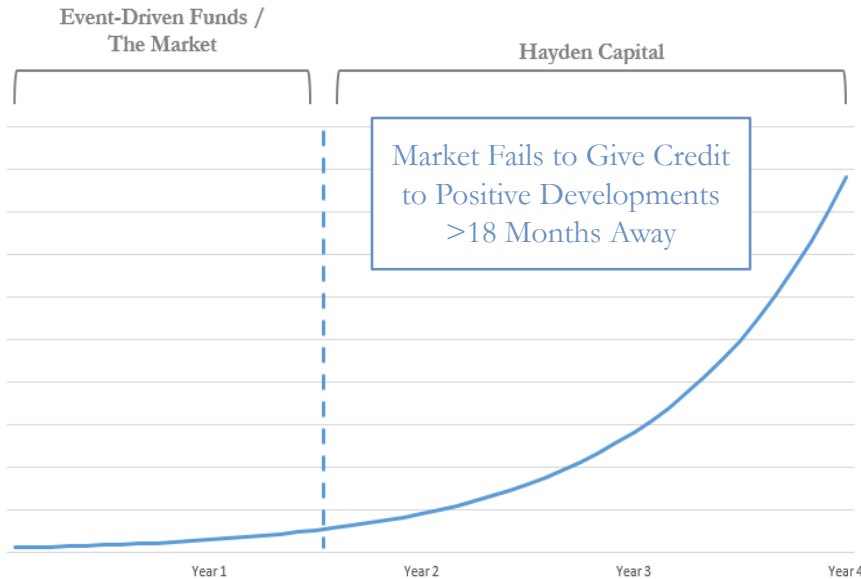
# Where We Differ

**Time Arbitrage:** The ability to invest on a longer time horizon than most other people is one of Hayden's most important advantages.

- Institutional investors are increasingly seeking low-volatility returns, and have resorted to investing in short-term “events” to achieve this.
- As a result, average holding periods have decreased to less than 18 months today.
- This is great opportunity for long-term investors and Hayden Capital. If we're willing to look beyond the market's horizon of 18 months, we can receive the value of future positive developments for free.

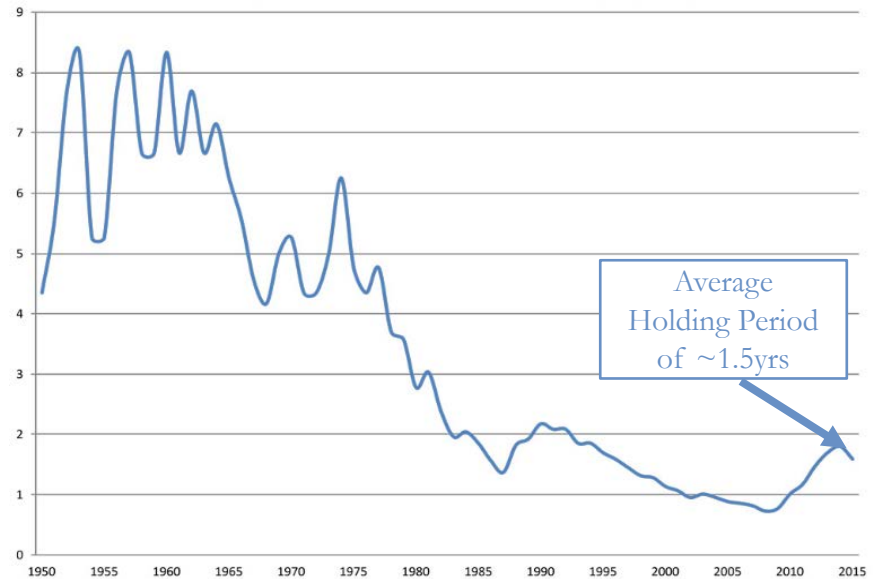
## Time Arbitrage

*In years*



## Average Holding Period for NYSE Stocks

*In years*

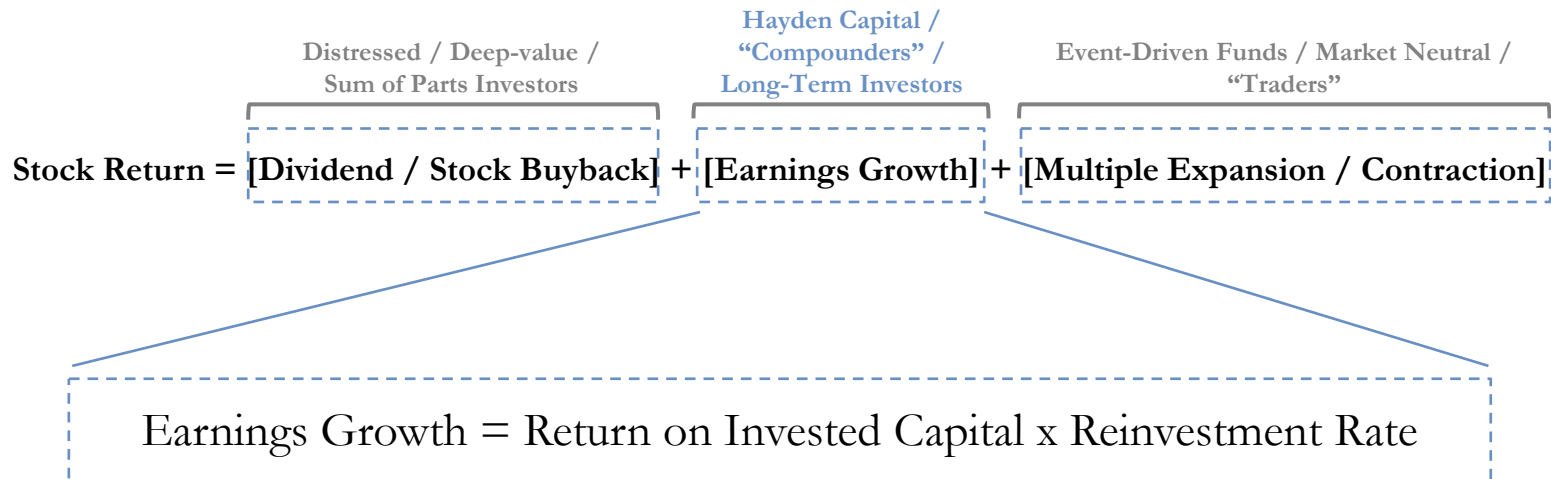


Source: NYSE

# Where We Differ

## Focus On Business Quality & Value Creation

- At Hayden Capital, we focus on Earnings Growth (a proxy for value creation).
  - The two components to forecast future earnings growth is: Return on Invested Capital x Reinvestment Rate.
  - **Return on Invested Capital (“ROIC”):**
    - “How much is the business able to earn on new projects / incremental capital reinvested into the business?”
  - **Reinvestment Rate:**
    - “What percent of earnings is the company putting back into their business?”
    - The higher the incremental ROIC, the more money the management team should reinvest in their business.
- Other investment managers rely on multiple expansion for returns (i.e. betting other investors will pay more for the same asset in the future).
  - Their time horizons are too short to benefit from fundamental changes in the company itself, so they seek to benefit from changes in perception of a company’s stock instead.
  - This is often pitched as “multiple re-rating,” “sentiment shifts,” “change in perception,” etc.





## Where We Differ

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**Concentrated:** We are concentrated in only our best ideas. Portfolios typically comprise of 6 – 15 holdings.

- When our ideas are correct, they will have a meaningful impact on the portfolio values.
- At the same time, we know our companies better than the average investor, as we are focused on only a few stocks at a time.

**Ability To Hold Cash:** Being able to hold large amounts of cash allows us to be patient.

- We can wait for opportunities in exceptional businesses, rather than being forced to invest in mediocre ones.
- Cash also allows us to protect capital in a downturn, while having purchasing power at a market bottom.
- This differs from many mutual funds, where mandates limit their cash positions to 5%.
- Many funds don't have this luxury and advantage that we do. At times, we may hold up to 30% of the strategy in cash.

*“Our job is to find a few intelligent things to do, not to keep up with every damn thing in the world.”*  
– Charlie Munger, Vice-Chairman of Berkshire Hathaway

# Investment Criteria and Process

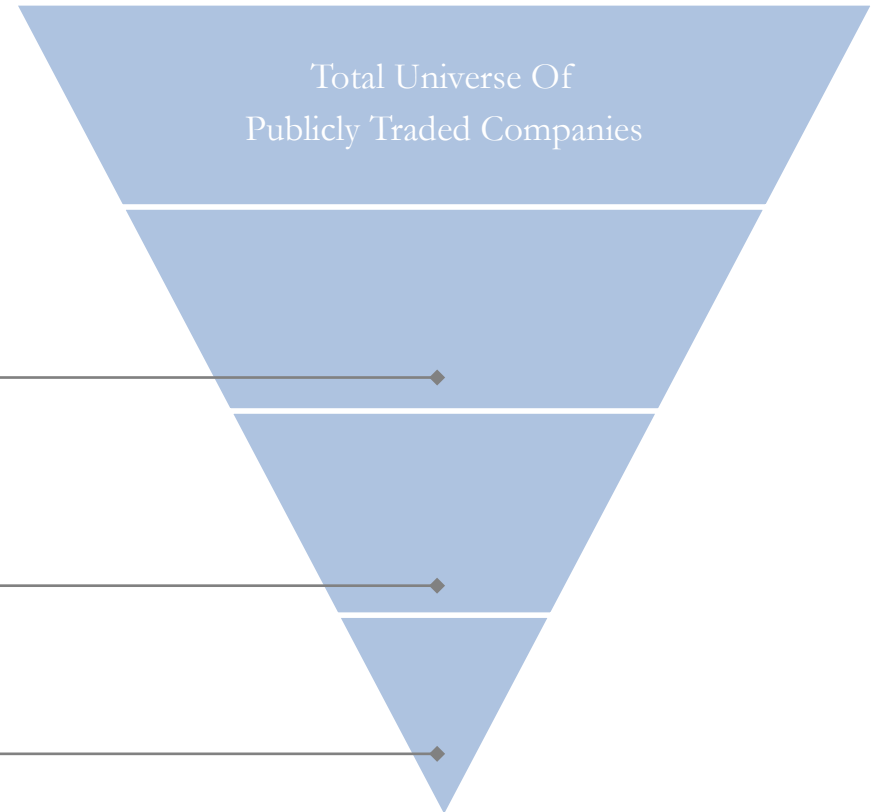
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**Our success is dependent upon exercising patience and discipline to only invest in situations that meet our criteria:**

**Ability To Understand The Business:** We focus on businesses that we thoroughly understand. We tend to avoid complex situations and theses, as well as industries requiring specialized knowledge (such as biotechnology). ◆

**High-Quality Businesses:** We look for market leaders with durable competitive advantages, that will continue to grow in value. We seek companies with owner-oriented management, and do not rely upon leverage for growth. ◆

**Attractive Price:** We only invest when the price is at a discount to our valuation of the business. This provides both a margin of safety, as well as favorable potential returns. ◆



# Performance

## Performance (Net of Fees)

Compared to S&P 500 Total Return Index & MSCI All-Country World Index

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	S&P	ACWI	
<b>2014</b>												-1.8%	-3.2%	<b>-4.9%</b>	<b>1.3%</b>	<b>-0.9%</b>
<b>2015</b>	3.1%	6.3%	1.5%	5.2%	0.0%	1.5%	0.9%	-4.9%	-2.0%	3.7%	4.0%	-2.5%	<b>17.2%</b>	<b>1.4%</b>	<b>-2.2%</b>	
<b>2016</b>	-6.0%	2.8%	3.3%	1.2%	3.5%	-3.3%	0.3%	2.5%	2.2%	-4.8%	0.4%	2.5%	<b>3.9%</b>	<b>12.0%</b>	<b>8.4%</b>	
<b>2017</b>	0.5%	-1.0%	1.5%	5.0%	6.7%	0.6%	2.3%	-0.8%	-0.4%	4.1%	3.9%	3.2%	<b>28.2%</b>	<b>21.8%</b>	<b>24.4%</b>	
<b>2018</b>	9.4%	4.0%	-6.3%	2.3%	0.7%	2.6%	-1.1%	0.4%	-4.3%	-10.8%	1.7%	-13.0%	<b>-15.4%</b>	<b>-4.4%</b>	<b>-9.2%</b>	
<b>2019</b>	2.4%	11.0%	0.9%	6.3%	-6.2%	12.3%	-1.0%	2.1%	-7.1%	1.7%	11.3%	3.2%	<b>41.1%</b>	<b>31.5%</b>	<b>26.6%</b>	
<b>2020</b>	2.5%	2.1%	-0.9%	21.9%	22.6%	29.5%	9.8%	22.3%	-2.0%				<b>164.1%</b>	<b>5.6%</b>	<b>1.7%</b>	

	<u>Hayden</u>	<u>S&amp;P 500</u>	<u>MSCI World</u>
<b>Annualized Return</b>	30.0%	11.1%	7.5%
<b>Total Return</b>	367.8%	85.8%	52.7%

<u>Geographic Exposure</u>	
<b>Asia</b>	54.7%
<b>North America</b>	30.3%
<b>Australia</b>	8.9%

<sup>1</sup> Hayden Capital returns are net of actual fees. Individual client performance may differ based on fee schedule and date of funding.

<sup>2</sup> Hayden Capital launched on November 13, 2014. Performance for both Hayden Capital and indexes reflects performance beginning on this date.

# Our Most Important Assets: Our Clients

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An investment management firm's most important assets are the quality of its clients. We hope our investors will invest in us, in the same manner we invest in businesses. Great clients invest as partners: providing long-term stable capital in times of opportunity, and patience in time of scarcity.

Having the right partners aligns our interests and expectations, and gives us the ability to execute the strategy. While incompatible investors distorts one's investment mentality and can result in a focus on short-term fluctuations rather than long-term values.

We hope to welcome long-term oriented investors to the Hayden Capital "family," and allow us to compound their capital alongside ours for years to come.

*"The single greatest edge an investor can have is a long-term orientation. In a world where performance comparisons are made not only annually and quarterly but even monthly and daily, it is more crucial than ever to take the long view. In order to avoid a mismatch between the time horizon of the investments and that of the investors, one's clients must share this orientation. Ours do."*  
– Seth Klarman, Baupost Group

**For More Information**

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