Greystone Capital Management

Concentrated Value Investing

Pitchbook

"When nothing seems to help, I go look at a stonecutter hammering away at his rock perhaps a hundred times without as much as a crack showing in it. Yet at the hundred and first blow it will split in two, and I know it was not that blow that did it, but all that had gone before."

- The Stonecutter's Creedo by Jacob Riis

Introduction

Greystone Capital is a long only, equity focused Registered Investment Adviser located in West Chester, PA. The firm utilizes a fundamental research process focused on identifying mispriced small and microcap securities in order to build a concentrated portfolio of high conviction investments.

Our aim is to compound client's investment capital at the highest possible rates of return over long periods of time.

Greystone's investment process is centered around patience, good decision making, and daily incremental improvement. What will unfold in the following pages includes our philosophy, strategy to achieve desired results, and fee structure

About Greystone Capital Management

- Registered Investment Advisor managing separately managed accounts launched in Q1 2020
- Concentrated value investing (7-12 positions) managed via Separately Managed Account structure
- Seeking to invest in small and microcap businesses that are misunderstood with long runways for growth, widening competitive advantages, strong balance sheets, and aligned management teams at discount prices
- Also focused on finding special situations based on corporate events such as spinoffs, rights offerings, mergers, management changes and de-listings
- Goal is to stay small, utilize patient capital, and invest with a long-term view of years, not quarters

Why Should Greystone Exist?

- The idea behind Greystone was to form an investment firm that is differentiated from larger asset managers and mutual funds. We aim to create value, not extract it
- If we are not able to outperform the results an investor could achieve by purchasing a low-cost, diversified index fund, there is no reason for us to exist. The world does not need another investment firm
- Our fee structure, investment approach, and time horizon are different than most RIAs and large investment funds in order to foster alignment with long-term investors
- The success of Greystone Capital is incredibly important to me, as the bulk of my family's net worth is invested in the firm's strategy

Current Problems for Investors

- Most active managers do not – and cannot – beat the market due to high levels of fees, inability to be patient, misaligned incentives, and myths regarding diversification
- Most managers optimize for assets under management as opposed to investment returns
- In addition, the rise of passive investing vehicles has led to investors in some cases blindly purchasing shares in businesses *without regard for value or price*
- Furthermore, computers or ‘quants’ have arbitraged away advantages of identifying and being able to ‘buy cheap securities simply because they are cheap’ (low multiples, low valuation factors etc.)
- As a result, complex and risky services and asset classes are being offered to investors that will result in poor returns over long periods of time

How We Solve Those Problems – Firm Structure

- Investment committee of one – sole portfolio manager
- No management fees for qualified investors – performance fee above a high-water mark
- The bulk of my family's net worth will be invested in the firm – our interests are completely aligned
- Concentrated portfolio made up of 7-12 high quality businesses that have been extensively researched and studied over time – goes against conventional wisdom regarding diversification
- Full transparency into what we own and why we own it via detailed quarterly letters
- Long time horizon – making investment decisions looking forward years, not quarters
- Low correlation to the broader market and most index funds – investing in small, illiquid, underfollowed companies not available for large fund ownership or index inclusion

Smaller is Better in Investment Management

We can be both concentrated and invest in sub-$500 million market cap companies. Large funds have smaller investable universes. The smallest company we own has a market value of around $35 million. This is absolutely untouchable for bigger funds

For a fund manager with $4 billion AUM, a 1% position is $40 million. They cannot invest in a $200 million market cap company in a meaningful way. We can. Over half the portfolio now is in companies with market caps below $200 million.

Put simply, we have more flexibility and a lot more options

How Has This Approach Performed?

Returns to date:

New launch makes performance measures irrelevant

Returns	Q1 2020	1H 2020
Greystone Capital (gross)	TBD	TBD
Greystone Capital (net – no management fees)	TBD	TBD
Russell 2000	TBD	TBD
S&P 500	TBD	TBD

Notes on Performance

Greystone Capital Management was founded in 2016 for family and friends. Following the distribution of letters and investment research, we experienced significant interest from outside investors.

The catalyst for launching Greystone was the need to develop a formalized structure in order to accept new investors.

Please inquire about returns since inception.

Investment Philosophy

Investment Philosophy

Our philosophy is based on **four core beliefs**:

1. The market will occasionally offer up shares of high-quality businesses at discount prices
2. Small companies tend to outperform, where wide distortions between price and value can be found
3. Volatility can be the friend of the investor, not a measure of risk
4. Investing with a margin of safety involves purchasing shares of quality businesses at a discount to their fair value.

Investment Philosophy (cont’d)

- The stock market will occasionally offer up shares of high-quality businesses at discount prices. This includes companies that are poised to deliver good operating results and grow their intrinsic or business value over long periods of time. These companies can often be found in their early stages, when the market is not paying attention, larger funds can’t invest due to size constraints, or during periods of temporary business problems or setbacks
- Greystone places an emphasis on small companies given that these businesses tend to be underfollowed for a variety of reasons, creating more opportunities to find distortions between value and pricing
- Volatility, or share price movement, which can be a friend to the patient investor, is not the same as risk, which is the permanent loss of capital, and should be avoided at all costs. I will often take advantage of share price volatility in companies we own by buying more shares.
- Identifying and purchasing shares in quality businesses at discounts to their fair value will result in the potential for high upside returns with lower downside risk

Investment Process

Investment Process

- Confusion between *process* and *outcome* is the single biggest source of error in the stock market
- Investing is the ultimate 'decision business', full of false narratives (make a bad decision and still make money, make a good decision, lose money)
- Without a consistent investment process to track and measure decisions, both good and bad outcomes can only be attributed to luck
- As a result, the most important aspect of my job is to develop a robust investment process that I adhere to at all times, during good and bad market conditions, that allows me to continuously and correctly identify and purchase mispriced businesses that fit our investment criteria
- At a high level, the investment process consists of performing diligent research, remaining patient, avoiding the pressure to act, and monitoring each decision independent of its outcome

Investment Process

Greystone's investment process consists of the following:

- Identify small and microcap companies that fit my investment criteria and perform thorough research consisting of valuing those businesses using my valuation methodologies
- Develop a watchlist consisting of 'studied-but-not-yet-owned' businesses for which I've modeled forward return scenarios at various prices
- Only deploy capital when we've identified a mispricing. Use yearly and quarterly stock market fluctuations to purchase any businesses that fit my price and qualitative criteria
- Re-evaluate each situation as new information comes into play while focusing on the long term with the aim of holding until the mispricing corrects
- Document every decision before, during and after making an investment through the use of an investment journal

This process helps identify the highest probability investments with the lowest downside risk. It then provides an opportunity for me to evaluate why and how a decision was made, independent of the outcome.

Investment Strategy

Context

"The best way to think about investments is to be in a room with no one else around and just sit there and read and then think about what you read. If you think that's not going to work, then I think nothing else is going to work."

-- Warren Buffett

"Warren and I do more reading and thinking and less doing than most people in business…We both insist on a lot of time being available almost every day to just sit and think. That is very uncommon in American business. We read and think."

-- Charlie Munger

Investment Strategy

Investing is a ‘no called strikes’ business. As a result, Greystone Capital’s investment strategy is to *do nothing* most of the time, *only* deploying capital when a mispriced opportunity exists

I spend the majority of each quarter reading and thinking, with a primary emphasis on company research

When a favorable opportunity presents itself in the form of a misunderstood business that fits my investment criteria, the business is run through my intensive research process after which it may become an addition to the portfolio

Investment Strategy

Greystone is attempting to outperform the market, or what an investor could accomplish on their own by owning a diversified index of companies set to perform in line with the broader market.

Our investment process seeks to invest in companies with the potential to become three to five year ‘doubles’

To achieve this, we utilize a rigorous, bottom-up research process to identify businesses trading at discounts to their fair value

Investment Strategy (cont'd)

Client portfolios are managed by taking concentrated positions in small companies. Greystone will typically own two types of investments in a concentrated portfolio, core investments and special situations.

Core investments

- Likely to be our longer-term holdings that are made up of higher quality businesses
- Position sizes in the 8-20% range, with maximum position size being rare

Special situations

- Can include but are not limited to business turnarounds, corporate events such as spinoffs, rights offerings, management changes, or businesses undergoing temporary issues that can be resolved by an experienced management team.
- Almost never receive portfolio weightings of greater than 5% at cost, but typically less than that given the lower quality and enhanced riskiness.

Investment characteristics that match my criteria:

- Off the beaten path, uncovered by analysts, surrounded by pessimism
- Microcap size – market cap < $500mm
- Operating in a niche product or service category as the leader, or capable of becoming the leader w/ a high customer value proposition
- Long runway for growth within the industry with some favorable macro tailwinds
- Cheap valuation relative to peers and conservative estimates of intrinsic value
- Aligned and high-quality management team that owns a large chunk of equity, preferably founder-led
- Strong downside protection via cheapness, cash flows, assets
- Significant upside in take private value, M&A, asset liquidation, discount to peers despite similar growth and margin targets
- Clean balance sheet w/ minimal debt loads
- Opportunity for revenue growth and margin expansion

Investment Strategy Summarized

- Perform extensive research, conduct thorough valuation work, and only invest with a margin of safety
- When a favorable opportunity presents itself, weight the position accordingly – high concentration
- Be patient with a multi-year holding period
- Constantly re-examine the investment thesis and new information
- Take advantage of volatility to acquire more shares at favorable prices
- Looking for 3-5 new ideas per year within areas I am capable of understanding

Speaking of ideas…

The idea generation process takes the form of a top down funnel sourced from news, qualitative screens, SEC filings, industry research, trade reports, 13F filings, fund manager letters, blogs/writeups, studying various industries and talking with other investors. Idea generation is a haphazard process.

Where Opportunities Can Be Found

- The nanocap and microcap space – companies with market values of <$300mm
    - No analyst coverage, no sell side research
- Occasional quantitative screens
- 52-week low lists
- SEC filings such as 13Fs, Form 10s, Form 4s
- Studying various industries including secular growth profiles and industry returns on capital
- Searching for GAAP financials that paint an inaccurate picture of the business – are they making income statement investments that depress short-term earnings, high non-cash charges, value-add marketing spend that won't screen well etc.?
- Paying attention to non-economic selling or temporary business issues that a high-quality management team can fix
- Studying businesses with high insider ownership, preferably founder-led
- Looking for high free cash flow yields or path to it
- Analyzing underappreciated growth that the market may be overlooking

Idea Generation

- I turn over a lot of rocks, with the goal of finding 1-2 new investment ideas per quarter
- Companies that hit on multiple criteria are moved to a ‘study list’ and a back of the napkin valuation is done in search of an attractive price. If compelling, I move forward with additional research
- A formal analysis is started among stocks that reach the research stage with a focus on risk management and ‘killing’ the idea
- Current study list – 150+ companies, current watch list – 20 or so companies

Idea Generation

Investing only in companies that meet a strict set of criteria results in a concentrated portfolio. Although this bucks the current wisdom regarding wide diversification as a risk management tool, I feel more confident investing ***less frequently***, in businesses where I have an intimate knowledge that meet my criteria.

I am not capable of understanding 25, 50 or 100 businesses on a deep level

Why Small and Microcap Companies?

- Taking concentrated positions in small companies with strong financial characteristics and long-term holding periods is an approach that hasn't yet been arbitraged away by quants, indexes or passive investing vehicles.
- With the majority of capital appearing to be chasing returns from a very similar group of large, liquid securities, there is now less capital interested in finding and researching small and microcap businesses. This can lead to wider disparities between price and value among these businesses
- Small and micro caps tend to be uncovered by sell-side analysts and large funds that can't make them a big part of their portfolio, so it can be an area of the market in which fundamental research and due diligence can truly add value.
- Easier to understand. One or two business segments, shorter 10Ks, easier to model and dissect
- Access to management teams. This is a huge advantage for the small investor.

Example of the Research Process

Step One: Company and industry analysis is completed

- Company presentations, filings, reports, conference calls, including competitors and peers
- Industry reports and data are collected about the market and secular growth
- Conservative financial projections are built and a valuation analysis is completed using the balance sheet, income statement and cash flow statement. Future cash flows are projected

Step Two: Primary research is conducted

- Site visits, management conversations, channel checks, industry events, customer, supplier, employee, industry expert interviews are conducted

Step Three: Valuation analysis

- Use all valuation tools available, including DCFs, multiples analysis, determine a margin of safety as appropriate
- Derive a conservative valuation and multiple based on cash flows, historic pricing, recent transactions and changes in growth profile/margins

How do we know what to pay for a business?

Margin of Safety

*"No matter how wonderful a business is, it's not worth an infinite price. We have to have a price that makes sense and gives a **margin of safety** considering the normal vicissitudes of life."*

-- Charlie Munger

Greystone will ***only*** commit capital to those ideas for which there exists a large enough discount between the value of the business and our available purchase price

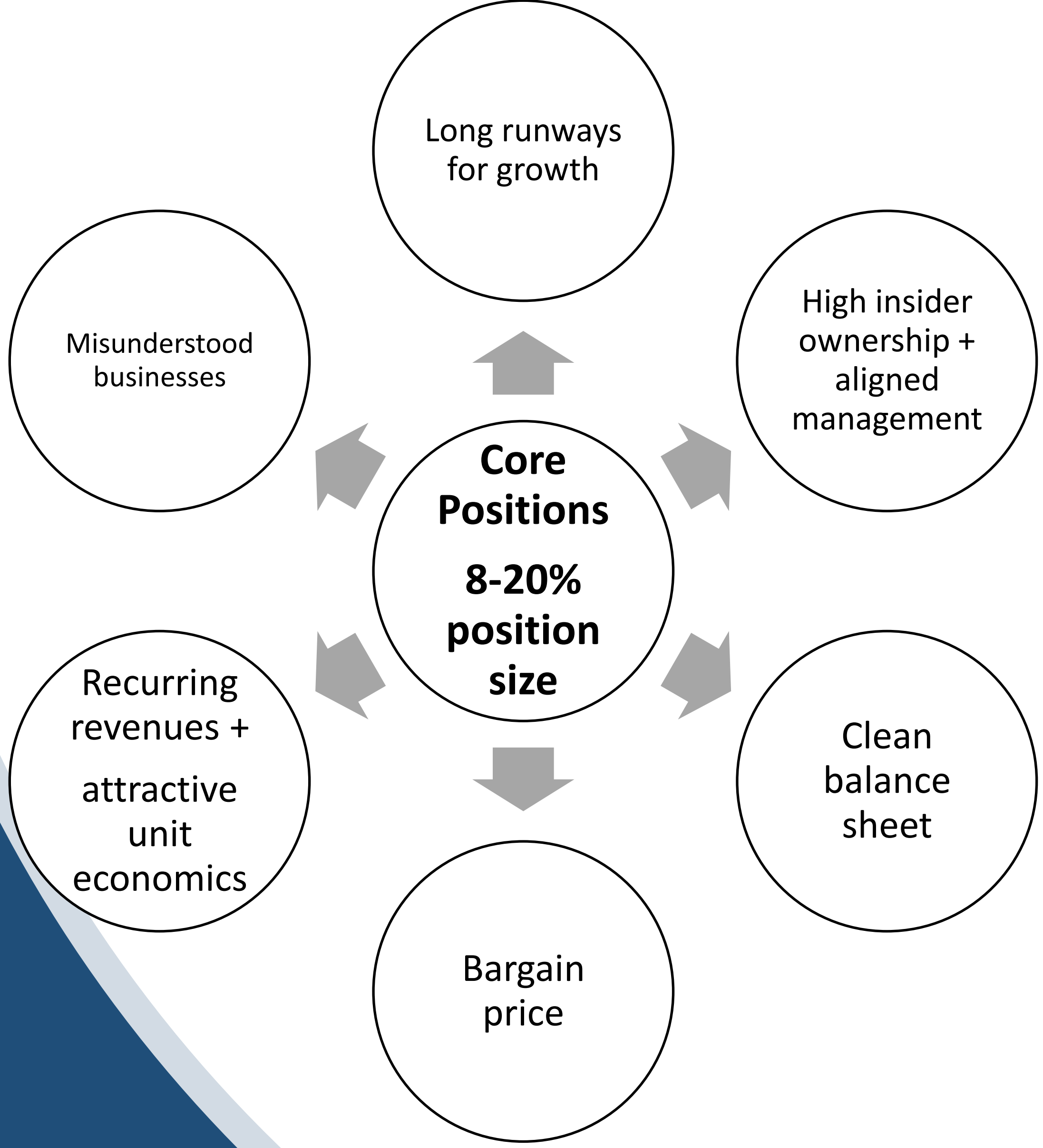
The reason for this is to provide protection in the case of a valuation mistake or poor decision that may result in a permanent loss of capital

Valuation Process

- Attempting to purchase shares of businesses at discounts to intrinsic value
- Intrinsic value based on a businesses' future cash flows discounted back to the present
- The most important part of the valuation process consists of correctly identifying situations that carry a large ***margin of safety*** – in the event I'm wrong about my estimates of the future economics of the business, the risk of permanent capital loss is minimized.
- Different valuation methodologies are used for different businesses, including discounted cash flow analysis (DCFs), peer and competitor multiples analysis, and asset value or replacement cost value analyses.
- Look for investments able to deliver 15-25% returns over a 3-5 year investment timeframe with limited downside risk
- Please refer to the Greystone Capital Founder's Letter for more detail

Portfolio Management

- Long only strategy with a US equity focus
- 7-12 names in the portfolio
- Exposure dependent on opportunity set – bottom up analysis
- Risk controls including position sizing and trimming
- Maximum position size of 20% - rare
- Margin of safety in the purchase price
- Thorough knowledge of the company and industry
- Frequent re-examination of the investment thesis
- Approach buying shares of companies in the public markets as if we are buying the entire business. Adopt an owner's mindset



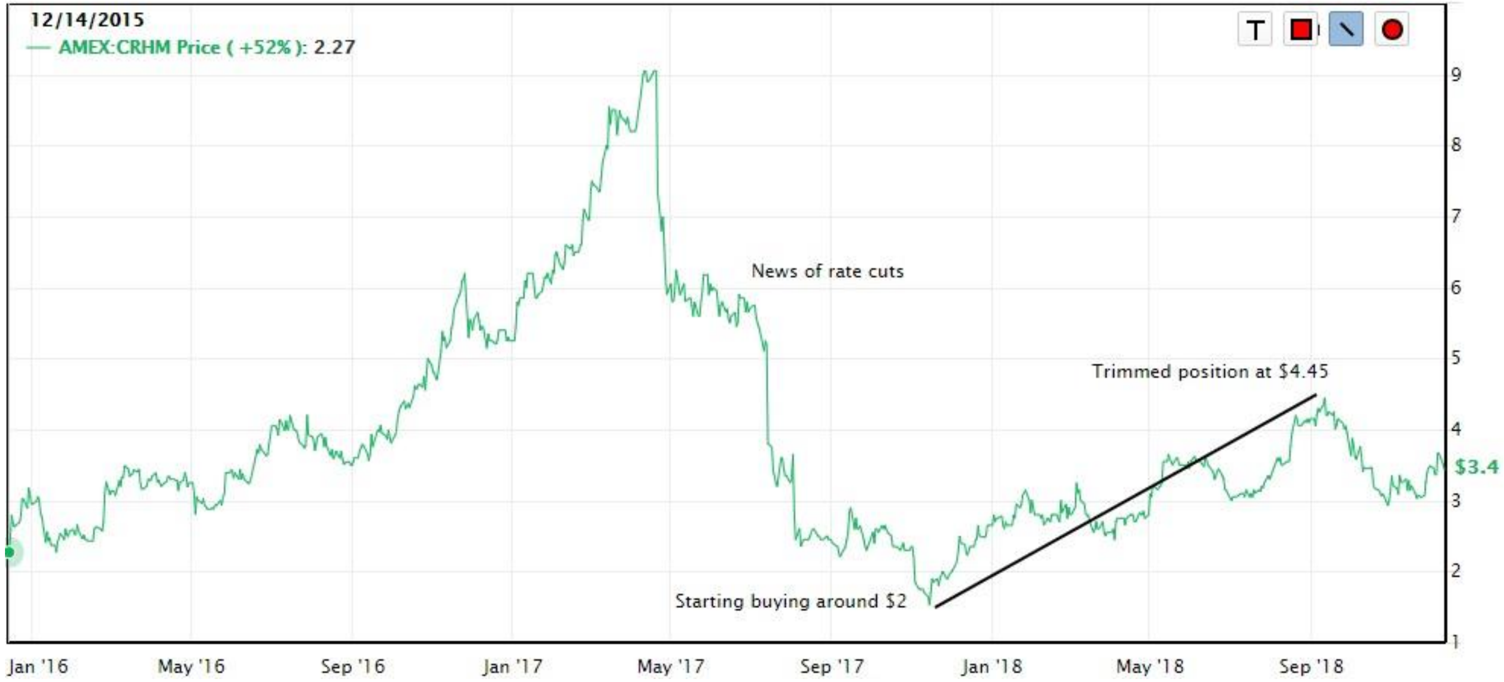
Portfolio Management

- My aim is to construct a portfolio made up of 7-12 securities, depending on the opportunity set and various opportunity costs at the time, with the top five holdings receiving the largest weightings
- Portfolio is selected by the highest scenario weighted return profiles with the top five holdings receiving the largest weightings
- Will occasionally enter into 'starter positions' as I continue to study a particular business
- Plan to hold for multiple years
- Cash holdings will vary depending on the opportunity set
- Portfolio is under frequent in-depth review to judge the likelihood of our target rates of return, and how our businesses performance is lining up with those targets.

Example Investments

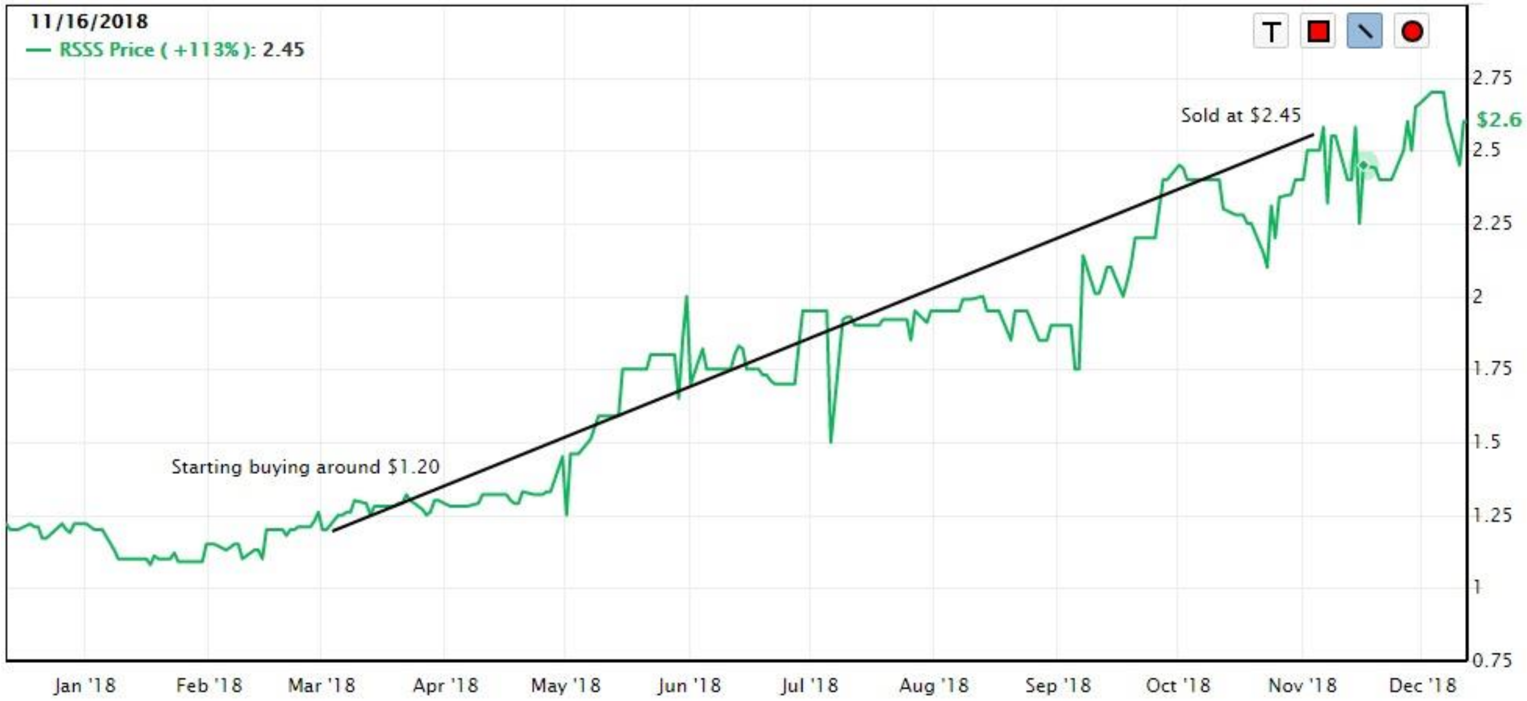
CRH Medical Corp. (CRHM)

- Anesthesia services business that had been hammered over fears surrounding reimbursement rate cuts
- Misunderstood business ***also*** going through some temporary issues
- GAAP financials severely distorted cash flow generation due to high amortization of intangible assets
- Stable, recurring revenue profile, 8% insider ownership, minimal debt
- Started purchasing shares at less than 6.5x free cash flow



Research Solutions Inc. (RSSS)

- $28mm EV business in the niche document distribution space – boring!
- Small, illiquid, underfollowed - no sell side analysts, no research coverage
- Transforming business from legacy reprint services to SaaS platform model – 78% gross margins, growing at 85-100% per year
- 23% insider owned, founder-led
- Path to breakeven which RSSS reached in Q3 2018
- Purchased shares at less than 1x EV/Revenues

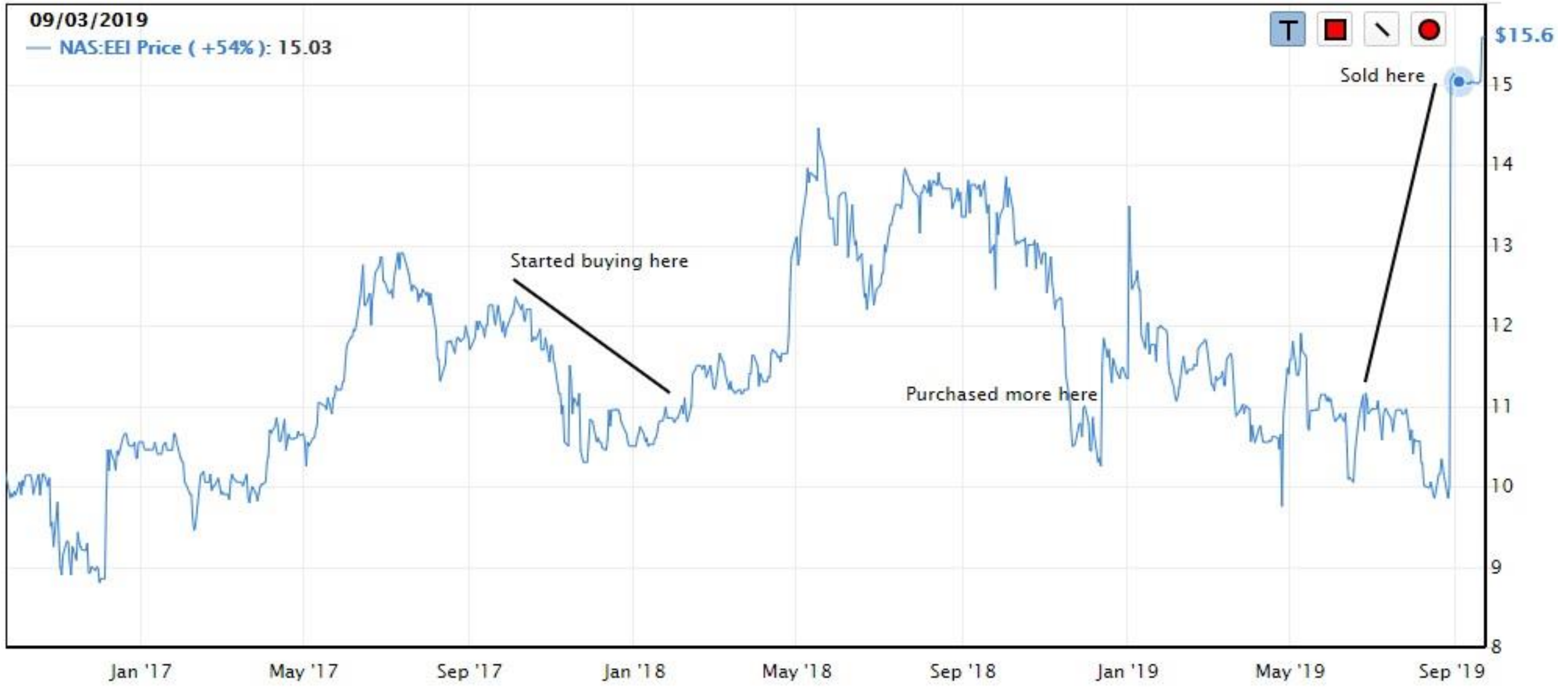


The Joint Corp. (JYNT)

- $75mm EV business transforming chiropractic services w/ a franchise model
- Temporary issues and underfollowed
- Overexpansion efforts by previous management led to large share price drop
- JYNT righted the ship, closed unprofitable stores, slowed cash burn and continued to grow at 20%+ w/ high teens SSS numbers
- Was able to purchase shares below IPO price despite considerable operational progress
- Haven't sold a share due to long runway for growth

Ecology and Environment (EEI)

- $35mm EV business in the contracting and government services space, no analyst coverage
- Founder-led management w/ a history of poor capital allocation decisions – activist involvement w/ buyout offer on the table at $13-14/share in 2017
- Delayed filings due to foreign currency exchange issues caused investor fatigue
- Was able to purchase shares at around 5-6x free cash flow
- Acquired by WSP Global for $15/share + $0.50/share special dividend w/ a 30 day 'go-shop' provision



Risk Management

Risk Management

- Put in place strict criteria for new investments
- Firm rules for position sizing and managing single security risk
- Put in place maximum position sizes not to be exceeded
- Buy and sell discipline
- Continue to use all available resources to improve decision making
- Set up research and work environment to be ‘investor friendly’
- Remove noise, distraction, news flow, constant price checking
- Say ‘no’ to most ideas
- Steer clear of certain industries including banks, insurance companies, utilities, businesses tied to the price of a commodity
- Be able to change my mind and pivot upon the receipt of new information without worrying about how it makes me look as a decision maker

Risk Management

- Mistakes will be made either on purchase price, investment thesis or economics of the business
- Unexpected things will happen
- Strict criteria and a small circle of competence forces us to be patient and very picky
- Volatility will happen, we are optimizing for long term returns
- Keep a 5-10% cash position in order to be opportunistic
- Utilize investment checklists, investment journal, continuously seek disconfirming evidence

Investor Terms

- I ask for a one year 'lockup' for new capital.
- I will communicate with clients once per quarter, usually by writing a letter outlining what we own, and why we own it. I will spend a lot of time on these communications because I want clients to understand my thought process, and the 'why' of what we do.
- Due to me and my family having nearly 100% of our net worth invested in the firm, my money is not going anywhere when we have a down year. This way, I can invest with a 3-5 year time horizon and not worry about quarter to quarter results.
- Our foundation: small size, terms that are aligned, long-term investment horizon, and a like-minded investor base.

Fee Structure

- No management fee for qualified/accredited investors
- 1.5% management fee for all non-qualified/non-accredited accounts
- No performance fee for non-qualified/non-accredited accounts
- 20% fee for any outperformance >5.0% for qualified investors
- The S&P 500 or Russell 2000 Small Cap Index are suitable benchmarks, depending on the total market cap of our portfolio. 5% is our ‘watermark’. I don’t make money unless you make money
- Flexible regarding lockup terms and account sizes
- Separately Managed Accounts is our structure – I don’t need custody of your funds. Helps keep overhead low
- Nearly 100% of my family’s liquid net worth is invested in the firm. Our interests are completely aligned

Portfolio Manager Background

- Graduated from High Point University with a degree in Sports Management
- Worked in professional basketball as a scout, analyst, and in basketball operations for the San Antonio Spurs and Houston Rockets
- Introduced to fundamental value investing in 2011. Was ‘bitten by the bug’ as it has now become my life’s pursuit
- Started managing friends and family money via separately managed accounts in 2016
- After receiving outside investor interest, formally launched Greystone Capital Management in Q1 2020
- Sole Portfolio Manager for Greystone’s small/micro-cap long-only value-focused, concentrated equity portfolio

What is Greystone?

During the bulk of my childhood, my dad ran a successful real estate advisory and consulting firm called Greystone Realty Advisors. In addition to financial reasons, he did so in order to gain the flexibility of schedule to attend every basketball game, school event, family party, and holiday for my sisters, brother and me. In other words, so he could be there for us. I’ve always been grateful for that, and look back on that time with so many great memories and more life lessons than I can count. I always enjoyed going to his office and ‘visiting dad at work.’ The firm name is a small tribute to my best friend and hero in life.

QUESTIONS AND CONTACT

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Feel free to reach out anytime. Email or call if you'd like to set up a time to chat.

Disclaimer: *Past performance is no guarantee of future results. Investing involves risks which clients should be prepared to bear, including but not limited to partial or complete loss of principal originally invested. Investing in small and microcap companies can result in additional volatility and higher risk due to comparatively low market capitalization, more sensitivity to economic and market conditions, and more limited managerial and financial resources. In addition, small companies typically trade in lower volume, making them more difficult to purchase or sell at the desired time and price or in the desired amount. Please refer to Form ADV Part 2 brochure for more information about Greystone Capital Management and its personnel.*