

# *Value Architects Asset Management Investment Presentation*

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**VALUE ARCHITECTS**  
A S S E T M A N A G E M E N T

*Preserving and growing wealth by design*

Rick Konrad, CFA, CFP®

Mark Harding, CFA

201.222.9930

[info@valuearchitects.com](mailto:info@valuearchitects.com)

# Who is Value Architects Asset Management?

- Independently owned and operated SEC Registered Investment Advisor (RIA)
- Principals have over 70 years of institutional investment experience and invest personal assets alongside our clients'
- Value Architects offers equity, balanced, and fixed income portfolios for a broad array of individuals and business entities including family trusts and foundations
- Assets are individually held in Separately Managed Accounts (SMA's) with a Balanced or All Cap Equity approach and are customized to meet client's goals
- Our mission: *to preserve and grow wealth by design*

# All Cap Core Strategy

# Equity Investment Strategy

- Value Architects employs bottoms-up fundamental approach to equity investing without regard for sector allocations
- Value Architects meets Morning Star's Large-Cap Value investment style category, but seldom uses traditional value-investing metrics
- We invest in companies that:
  - have a market value below intrinsic value
  - generate free cash flow in excess of operational needs
  - earn a return on invested capital above industry norms
  - exhibit a sustainable competitive advantage and the ability to maintain growth
  - have management with ownership stake and a proven ability to allocate capital intelligently
- Modestly concentrated portfolio with at least 20 equities, and a maximum of 35
- Individual equity position weightings will be a minimum of 2% and a maximum of 10%

# Key Characteristics of Core Positions

- High quality business
  - above average or improving profitability measures (ROA, ROE, ROIC)
  - returns on invested capital in excess of cost of capital
  - Free Cash Flow generation and predictable (preferably moderate) capital requirements
  - conservative capital structure
- Attractive longer term competitive position
  - substantial barriers to entry
  - low costs of production and/or economies of scale
  - high switching costs
  - intellectual property, patents, licenses, or other intangible assets
- High quality management
  - hold ownership stake in the company with compensation tied to performance
  - clear communication with shareholders and conservatism in financial statements
  - prudent capital management
- Is the price paid reasonable?
  - purchase at a discount to intrinsic value (margin of safety)
  - how likely are we to lose money due to permanent capital impairment?

# Investment Process

## The Buy Discipline

- Financial Health
  - Above industry norms in profitability
  - Strong balance sheets
  - Produce cash in excess of their operating needs
- Value Investing
  - Invest in companies trading at a discount to their estimated intrinsic value
  - Reduces risk of overpaying and provides a margin of safety
- Why buy now?
  - Utilize fundamental, quantitative, and behavioral analysis
  - Has the market provided us with a compelling entry point?

## The Sell Discipline

- Reaches intrinsic value
- Replacement by more attractive security
- Deterioration in fundamentals
- Emergence of Corporate governance issues

# Balanced Strategy

# Balanced Account Investment Strategy

- Balanced accounts combine stock and fixed income investments in order to capture much of the return of an equity account with less exposure to declines in stock market prices
- We offer balanced accounts for both tax-exempt and tax-sensitive clients. Our fixed income discipline focuses on higher quality securities whose credit *worthiness* is evaluated by our own analysis, not just the ratings agencies

The three aspects of a balanced strategy include:

- asset allocation
- fixed income selection
- equity selection

# Balanced Account Asset Allocation

- We normally invest between 20% and 80% of total assets in equity securities, primarily common stocks
- A minimum of 20% of total assets will be allocated to fixed-income securities
- Risk preferences of the individual client will determine the specific target allocation of the portfolio
  - variations in the target allocation is determined by the portfolio managers' assessment of business, economic, and capital market conditions, and particularly by our ability to find undervalued equity securities
  - active allocation shifts between fixed income and equity portions of the balanced portfolio are assessed monthly or more frequently, depending on market conditions
- A minimum shift in weighting of 5% is considered to implement a change in active asset allocation

# Fixed Income Security Selection

- The emphasis of security selection is credit quality and predictability of cash flows, hence, generally a majority of the portfolio will consist of higher quality securities
- The fixed income sector is typically a somewhat eclectic group of different investment vehicles. Value Architects typically uses a combination of Closed End Funds, REITs, Preferred Stocks, Canadian Income Trusts, and Business Development Corporations to build the fixed income portion of a portfolio. The goal of the eclectic nature of the portfolio structure is to achieve a level of diversification that allows the investor to obtain a total return over the return of an intermediate term bond. Such a strategy allows one to capture yield by taking advantage of securities that are mispriced by the market based on their expected cash flow stream.
- Historically, Value Architects has utilized primarily government Treasury and agency securities to build fixed income portfolios. However, current market conditions provide unacceptable rewards and risks in our judgment

## Fixed Income Security Selection (continued)

- In our judgment, current conditions warrant broadening the acceptable universe to include corporate fixed income securities both from a risk and a reward basis
- Value Architects does not rely on the credit quality judgments of rating agencies. Given our emphasis on cash flow and security analysis, such inputs are used in combination with careful analysis of the legal indentures that determine investors' rights in the capital structure
- Consequently, a somewhat eclectic nature of securities are utilized in portfolios at present. Under these circumstances, overall sector and company exposure from both fixed income and equity allocations will be considered to minimize risk

# Biographies

## **Richard H. Konrad, CFA, CFP®, MFS - Partner, Portfolio Manager**

Rick founded Value Architects in 2002. He has been in the investment advisory business for 36 years. His experience includes asset liability management of fixed income assets for a life insurance company as well as portfolio management for pension plans, insurance companies, foundations, university endowments, and mutual funds as well as for individuals. Rick is a CFA Charterholder and has been very involved with education for both the Toronto and New York chapters of the CFA Institute as well as participating in the grading of this rigorous program. In addition, he is a Certified Financial Planner™. Rick previously served as Managing Director of Research for Ryan Beck & Co where he became involved in unit investment trust portfolio creation and design. Value Architects views this as a core competency and has designed over twenty different UITs with two sponsors. Rick graduated from the University of Western Ontario where he serves on the Investment Committee. Rick earned a Master of Science in Finance from Northeastern University and completed the Harvard Business School Executive Program on behavioral investing. He is also a member of the Advisory Council to the Center for Reputation Management at Drexel University's LeBow College of Business.

## **Victoria Fillet, CFP® – Partner, Client Servicing/Marketing**

Ms. Fillet began her investment career at The First Boston Corporation, later joining Furman Selz, becoming Managing Director for Syndication. After 25 years of Wall Street experience, she moved to Canada as a consultant for Republic Bank where she worked on the development and feasibility of several investment products. She headed the volunteer fundraising activities for the Oakville-Trafalgar Hospital in Ontario while in Canada. She co-founded Value Architects. Vicki is a graduate of Fordham University with a BA in economics and business. She received her Certificate in Financial Planning from New York University and is a Certified Financial Planner™. She is currently on the Board of Directors for the Financial Planning Association of New York, and works with the Financial Women's Association teaching Financial Literacy to high school students.

## **Mark Harding, CFA – Portfolio Manager**

Mark has spent 12 years as a sell-side analyst covering primarily technology, media, telecom, and Internet stocks. Mark began his Wall Street career in 2000, working at Ryan Beck, Citi Group, Maxim Group, and JMP Securities, covering companies such as Akamai, Amazon, Apple, Comcast, Facebook, Sony, Netflix, and Pandora. Over the past 12 years, Mark has presented at numerous investment conferences, and has provided presentations about the direction of technology and media to 2 large Motion Picture Association of America (MPAA) studios, as well as a large South Korean consumer electronics manufacturer. Mark has appeared on CNBC, Bloomberg, and Fox Business News. Mark has a BBA and MBA in Finance from the University of Miami, and is a CFA Charterholder.

# IMPORTANT DISCLOSURE INFORMATION

- **Value Architects Asset Management ("VAAM")** portfolio results\* represent results for each portfolio (Balanced and All Cap) during the corresponding time period. The performance results reflect the reinvestment of dividends and other account earnings, and are gross of applicable account transaction and/or custodial charges.
- **Please Note: Past performance** may not be indicative of future results. Therefore, no current or prospective client should assume that future performance will be profitable, equal the performance results reflected, or equal any reflected historical benchmark index (S&P 500 Composite Index - "S&P", Russell 3000 or iShares Lehman 1-3 Year Treasury Index) or any blended benchmark (Balanced Index). The historical index performance results for the S&P does not reflect the deduction of transaction and custodial charges, or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing indicated historical performance results. The S&P is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. Standard & Poor's chooses the member companies for the S&P based on market size, liquidity, and industry group representation. Included are the common stocks of industrial, financial, utility, and transportation companies. The Russell 3000 Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. The iShares Lehman 1-3 Year Treasury Index seeks to approximate the total rate of return that correspond generally to the price and yield performance of the short-term sector of the United States Treasury market as defined by the Barclays Capital U.S. 1-3 Year Treasury Bond Index. The historical performance results for the S&P, Russell and Lehman are provided exclusively for comparison purposes only, so as to provide general comparative information to assist an individual client or prospective client in determining whether VAAM performance meets, or continues to meet, his/her investment objective(s). **Please Also Note:** (1) performance results do not reflect the impact of taxes; (2) It **should not** be assumed that account holdings will correspond directly to any such comparative benchmark index; (3) comparative indices may be more or less volatile than the VAAM portfolios; and (4) a more comprehensive description of each comparative benchmark index is available upon request.
- **Please Note: For reasons including** variances in portfolio account holdings, variances in the investment management fee incurred, market fluctuation, the date on which a client engaged VAAM's investment management services, and any account contributions or withdrawals, the performance of a specific client's account may have varied substantially from the indicated VAAM model portfolio performance results.

# IMPORTANT DISCLOSURE INFORMATION (cont'd)

- **In the event** that there has been a change in a client's investment objectives or financial situation, he/she/it is encouraged to contact their financial advisor or broker immediately. Different types of investments and/or investment strategies involve varying levels of risk, and there can be no assurance that any specific investment or investment strategy (including the investments purchased and/or investment strategies devised or undertaken by VAAM) will be either suitable or profitable for a client's or prospective client's portfolio.
- Information pertaining to VAAM's advisory operations, services, and fees is set forth in VAAM's current disclosure statement, a copy of which is available from VAAM upon request.

\*All performance results have been compiled by Stifel Nicholas, an unaffiliated SEC registered investment adviser and broker-dealer, and FINRA member, and have not been independently verified by VAAM. VAAM is an approved manager on the Stifel Nicholas investment platform that is available to Stifel Nicholas customer. Stifel customers may pay more for VAAM's services obtained on the Stifel platform than had they directly engaged VAAM's services independent of Stifel. \*\* As stated in its written disclosure statement, VAAM may charge smaller accounts (accounts less than \$100,000) a 1.50% annual investment management fee, which, if incurred, would have decreased the above reflected results.