A unique group of companies

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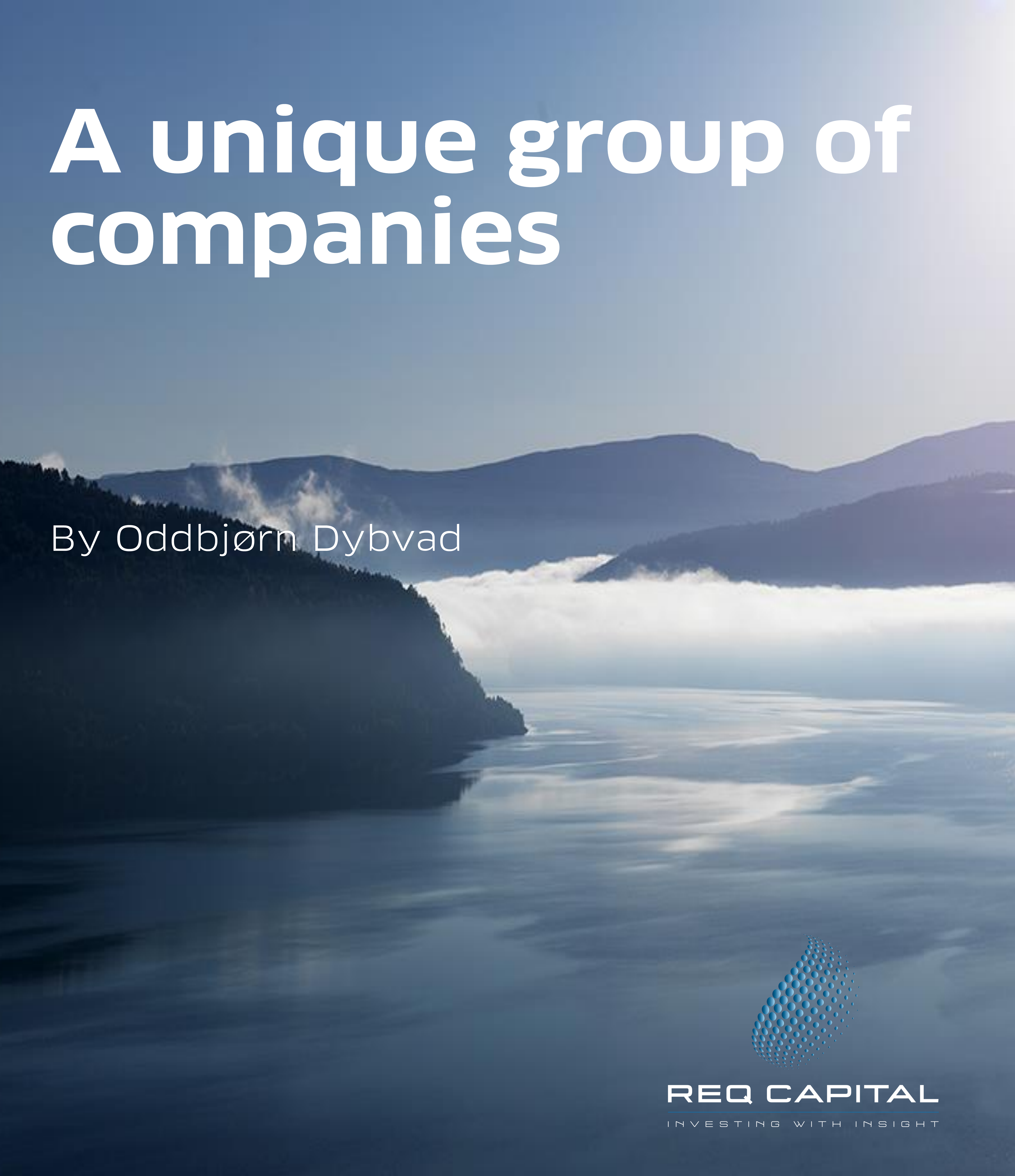

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REQ Global Compounders is based on an investment philosophy of investing in serial compounders, a group of publicly traded companies that specialise in sourcing, acquiring, and supporting a range of private companies. They buy private companies at below-market multiples, with a perpetual view on ownership. Our interest and growing fascination with these high performing serial acquirers stems from our experience that these companies have some very good risk mitigation elements in them due to diversification. They are fundamentally low-risk business models.

In financial theory, one would assume that these companies that come with lower underlying risk offer lower expected returns, but that's far from what we have seen over the years that we have been investing in these business models. They offer some very interesting return characteristics, as we will highlight below.

The risk reduction approach

Our acquisition-driven portfolio companies are highly diversified in terms of products and services, customers, and geographic markets. By indirectly investing in hundreds of small private companies through their publicly traded parent companies, we largely avoid "single exposure" to events that are challenging for many companies.

We want to avoid investing in companies that sell only one product to one group of customers in one market. Experience has shown us that negative changes in the attractiveness of a single product or service, a change in the bargaining power of customers, or the market outlook, can have dramatic consequences for the company in question. Overdependence on a single product, customer or market also carries high regulatory risk.

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Of course, there are companies with very concentrated exposure that are highly successful in their business, but our experience is that many of these companies carry binary risks that make them vulnerable.

From this risk mitigation perspective, and with the goal of avoiding financial meltdowns, we have built a portfolio of a special group of listed serial acquirers that comprise the REQ Global Compounders. But the return prospects of our companies are also very promising.

<u>The return enhancing approach</u>

It is very interesting to meet investors, mostly private, who are invested in the same companies that we are. Many of these investors have come to the same conclusion as we have, but from a very different perspective - from the perspective of returns.

Over the past few months, we have been talking to US investor Chris Mayer, the author of the book "100 Baggers: Stocks That Return 100-to-1 and How To Find Them". I highly recommend his book, which talks about the ingredients you need in stocks to find the ones that will yield 100 times your money. He has identified many of the same companies we have, but has looked at the same companies from a completely different angle - the return angle.

If you disregard the "lottery tickets" in the stock market - those companies that carry a lot of binary risk (imagine biotech, mining, etc.), Chris Mayer argues there are five ingredients you need to make a potential "100-bagger":

1) Size: Small to medium sized companies.

2) Quality: High return on capital

3) Growth: In all dimensions: sales, margins, multiple

4) Growth path: Decades of durability

5) Valuation: It helps to buy at reasonable prices

If you look at the portfolio of REQ Global Compounders, many of our portfolio holdings share these characteristics.

Our fund holdings comprise mainly small to mid-cap companies. The median market cap of the fund is around $13 billion.

The quality aspect of the portfolio is solid - return on capital today is approx. 24%.

Growth is secured through two growth engines, both organic and acquisitions. In October alone, our companies collectively announced 20 private acquisitions, bringing the YTD total to 249. Just think about that for a moment. In order to close such a high number of transactions with private sellers month after month and year after year, several conditions must be met. The growth path is secured as management in these companies have a high degree of skill in allocating capital and an incentive to deploy excess capital in a way that creates shareholder value, not destroy it. The deals must be sourced (normally off-market without M&A brokers); negotiated (multiples paid are in general lower than those paid by private equity GPs); and funded (usually through free cash flow). In essence, these portfolio companies have developed a very effective internal M&A capability.

Furthermore, we sleep well at night knowing that the senior management teams of our portfolio companies have a lot of skin in the game through equity ownership. On average, the management or families behind our companies own a 6% equity stake.

Finally, estimates and valuations of our portfolio companies tend to underestimate future growth. It is very difficult to estimate such a high pace of future acquisitions, although it is a key part of the companies' business model. It follows that analyst forecasts for the serial acquirers in our portfolio tend to significantly underestimate the long-term growth potential of the listed parent company.

The durability of growth is ensured by very diverse markets and in general low market shares. Our companies continuously buy private companies at multiples far below public market multiples. The reasons for this are the companies which are bought are generally too small for private equity firms or the founder does not want to sell to private equity.

To sum up

We believe that REQ Global Compounders has some unique risk and return characteristics. We believe we are able to combine low-risk business models with high return prospects.

From a risk reduction perspective, these companies are highly diversified and comprise hundreds of small private entrepreneurs. From a return perspective, the right ingredients are in place for these companies to continue to create massive shareholder value.