Sanford DeLand

ASSET MANAGEMENT

Buisness Perspective Investors

STATEMENT OF OUR INVESTMENT PRINCIPLES

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CFP SDL UK Buffettology Fund

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Introduction

Sanford DeLand Asset Management was established in March 2010 by a group of like-minded, business professionals. They formed SDL Limited, in order to establish and fund the CFP SDL UK Buffettology Fund. The directors are Ian Page (Chairman), Keith Ashworth-Lord (Investment Director) and Andrew Christian (Non-executive Director). The SDL brand is licenced to Castlefield Investment Partners LLP, which is the investment adviser to the Fund.

Keith has a BSc in Astrophysics and an MSc in Management Studies. His career spans over thirty years in equity capital markets, working in company investment analysis, corporate finance and fund management. He is a Chartered Fellow of the Chartered Institute for Securities & Investment and he holds the Investment Management Certificate of the United Kingdom Society of Investment Professionals.

This document outlines SDL's investment tenets and describes in detail how we apply these in our investment methodology. This methodology is based upon the principle of Business Perspective Investing; the philosophy adopted by great investors such as Warren Buffett, Charlie Munger, Benjamin Graham, John Maynard Keynes and Philip Fisher.

> *"Investment is most intelligent when it is most businesslike."* [1]
>
> Benjamin Graham
> The Father of Security Analysis

Investment versus Speculation

Investment means taking a view on the Economic Value of a business and then letting the stock market reward operating performance through an appreciation in the share price.

In his book 'Beating the Street', Peter Lynch said:
"In the long-term there is a 100% correlation between the success of a business and its share price performance." [2]

Warren Buffett concurs:
"If the business does well, the stock eventually follows." [3]

Our approach is the antithesis of Speculation. Speculation means taking a view on the future movement in the share price without ever having to understand the underlying drivers of Economic Value. This is the 'greater fool theory of investment'; the theory that there will always be someone along later on to take the stock off your hands at an attractive premium.

> *"Investment is an activity of forecasting the yield on assets over the life of the asset. Speculation is the activity of forecasting the psychology of the market."* [4]
>
> John Maynard Keynes

"Investment is a business venture, not a gamble. It is going to be the enterprises owned that make money for the investor, not the stock market."

Keith Ashworth-Lord

Writing in 'Security Analysis', Benjamin Graham and David Dodd said: *"An investment operation is one which, upon thorough analysis, promises safety of principal and a satisfactory return. Operations not meeting these requirements are speculative."* [5]

Investment is a business venture, not a gamble. It is going to be the enterprises owned that make money for the investor, not the stock market.

The business that one invests in is simply a device to generate a cash return. It doesn't make any difference what type of business it is that generates this cash flow. The type just tells you how easy or hard it is to generate the cash; the simpler, the better. Once cash is distributed back to the investor, it buys the same amount of goods or services irrespective of where it came from.

In this respect, a business is no different to any other investment; there is an initial cash outlay and a return over time. The return demanded from an equity investment has to be higher than the return obtainable from a bank or building society account in order to compensate for participating in a riskier game. All economic activity is inherently risky.

Long-term versus Short-term

Performance measurement is often ludicrously short-term, for example quarterly. So, not surprisingly, much of the investment management industry operates with short-term trading strategies that often hope to be opportunistic in nature but equally often have no core investment philosophy anchoring the approach.

Philip Fisher alluded to this in 'Common Stocks and Uncommon Profits': *"Whilst good fortune will always play some part in managing common stock portfolios, luck tends to even out. Sustained success requires skill and consistent application of sound principles."* [6]

"It may be another of life's ironies that investors principally concerned with short-term performance may very well achieve it, but at the expense of long-term results." [7]

V. Eugene Shahan
Columbia University
Business School

We aim to provide long-term wealth accumulation over an investment horizon of five-to-ten years. It is an observation that speculators can achieve superior rewards in the near-term but at the expense of the total returns garnered by those who invest for the long-haul. Businesses do not perform to quarterly, or even annual, timescales. Like a snowball, they take time to compound.

Business Perspective Investing

Philip Fisher believed that: "*There are a relatively small number of truly outstanding companies. Their shares frequently can't be bought at attractive prices. Therefore, when favourable prices exist, full advantage should be taken of the situation.*" [8]

The moral of this is that only an excellent business bought at an excellent price makes an excellent investment. One without the other just won't do.

Business Perspective Investors start from the premise that there is no philosophical distinction between part ownership (i.e. buying shares in a company) and outright ownership (i.e. buying the business in its entirety). All we are looking for is pieces of businesses to buy at the right price.

Quality of Business

It follows that there are several important criteria that companies selected for investment consideration must exhibit in abundance. Among these are that:

- Their business model is easily comprehensible;
- They produce transparent financial statements;
- They demonstrate consistent operational performance with earnings being relatively predicable;
- They generate high returns on capital employed;
- They convert a high proportion of accounting earnings into free cash;
- Their balance sheet is strong without unduly high financial leverage;
- Their management is focused on delivering shareholder value and is candid with the owners of the business; and
- Their growth strategy is more likely to rely on organic initiatives than frenetic acquisition activity.

Warren Buffett paraphrases it like this:
"*Look for the durability of the franchise. The most important thing to me is figuring out how big a moat there is around the business. What I love, of course, is a big castle and a big moat with piranhas and crocodiles.*" [11]

"In the short run, the market is a voting machine but in the long run it is a weighing machine." [9]

Ben Graham

"Only an excellent business bought at an excellent price makes an excellent investment."

Keith Ashworth-Lord

"Great stocks are extremely hard to find. If they weren't, then everyone would own them. I knew I wanted to own the best or none at all." [10]

Philip Fisher
Pioneer of investment theory

> *"The volatility of a company's stock price caused by a recession… or the odd event… can create an opportunity for the business perspective investor who has an eye on the long term."* [12]
>
> Mary Buffett & David Clark

> *"The value of any stock, bond or business today is determined by the cash inflows and outflows – discounted at an appropriate interest rate – that can be expected to occur during the remaining life of the asset."* [13]
>
> John Burr Williams

> *"Price is what you pay; value is what you get."* [15]
>
> Warren Buffett

Great investment opportunities arise when excellent companies are affected by unusual circumstances that cause their share prices to be wrongly appraised. Having identified an outstanding company, we must be sure that its shares can be bought for substantially less than their true economic worth.

Economic Worth

Business Perspective Investors have a strong focus on free cash generation. We believe that economic worth is the present value of the future stream of free cash flows. What matters most therefore is the volume of cash likely to be generated over the holding period.

Margin of Safety

The difference between market price paid and economic value received is encapsulated in Ben Graham's famous 'Margin of Safety'; three of the most important words in the investment lexicon according to Buffett. If long-term market price and economic worth do indeed converge, the unknowable is the time this will take.

The operating performance of a company tells us how successful the investment has been, not the share price. That is because we are long-term partners who believe that the principal risk for investors is economic (business based), as distinct from quotational (stock market price based).

Selling

When it comes to selling, we tend towards Philip Fisher's dictum [14] that there are only three good fundamental reasons:

- The first is that there has been a permanent deterioration of the franchise, its growth prospects or its management.
- The second is that an alternative superior investment proposition has been uncovered at a time when sufficient cash for investment in it is not available.
- The third is that a mistake has been made and the reality is a lot less favourable than originally envisaged.

A fourth might be that market prices have become detached from economic reality in the midst of an asset bubble.

However, the regulations that govern authorised investment funds in the UK require that a collective open-ended investment company may invest no more than 10% of its assets in any single company's shares and no more than 40% of the fund may be made up of companies' shares that each represent 5% or more of its net assets.

We have some sympathy with those who, like Peter Lynch, see having to sell down a successful investment to reinvest elsewhere as a little like digging up the roses to water the weeds. But rules are rules.

There is another advantage of keeping portfolio turnover down. Repeated buying and selling incurs transaction costs on exit and re-entry, such as broking fees, levies and stamp duty. These frictional taxes detract from returns over time.

"Some people automatically sell the winners… and hold on to the losers… which is about as sensible as pulling out the flowers and watering the weeds." [16]

Peter Lynch
Former manager of Fidelity's Magellan Fund

The Importance of Dividends

Dividend income forms an integral part of the total return of an investment, the other component being capital growth. Dividends are important for more than income generation; they provide a useful check during the process of assessing a company as an investment prospect.

It simply isn't possible to pay dividends year-in, year-out, without the company generating sufficient free cash to cover its reinvestment requirements and still have some cash left over to reward its shareholders. The adoption of a progressive dividend policy, sometimes accompanied by periodic returns of surplus capital (via share buy-backs or special dividends) is an excellent sign that management has the owner's eye. Paying dividends is a very good management discipline.

Moreover, studies show that dividends form a consistently high proportion of the total return available from equities. During the 'lost decade' for equity investment from the start of 2000 to the end of 2009, the FTSE All-Share Index fell by over 15% from 3242 to 2751 but its counterpart, the Total Return Index, which is based on dividends reinvested, rose by almost 18% from 3051 to 3591 (*Source: WM Performance Services*).

Also, over the long-term, dividend-paying shares appear to perform better than their non-paying counterparts and deliver stronger relative returns in difficult economic times.

"A Paradox… The more the stockholder subtracts in dividends from the capital and surplus fund, the larger value he places upon what is left." [17]

Ben Graham & David Dodd

"I put a heavy weight on certainty… if you do that, the whole idea of a risk factor doesn't make any sense to me. Risk comes from not knowing what you're doing." [18]

Warren Buffett

"Too many investors' circles of competence seem to be a mile wide and an inch deep. We think ours is quite the opposite. We aim to invest in a spread of superior businesses that we know well, which we believe reduces economic risk." [19]

Keith Ashworth-Lord

Portfolio Composition

Modern portfolio theory postulates that the more holdings there are in a fund, the more risk is reduced. That is because it claims risk is associated with share price volatility, not the underlying economics of the business.

We view this conventional portfolio diversification as little more than a hedge against having the courage of one's convictions. Therefore, we favour a focused approach to investing and typically having ownership of around 25-35 holdings in appropriate companies. We regard real risk as being that of investing in the wrong businesses.

Despite this widespread antipathy to running concentrated (i.e. lesser diversified) portfolios, it is ironic that index tracker funds are usually regarded as being lower risk. According to FTSE International Limited in its fact sheet dated 30 June 2016, the FTSE All-Share Index had a market capitalisation of £2.08 trillion. Of this, the top ten constituents accounted for £722 billion, or 34.7% of the total. This in fact makes them highly concentrated.

The opportunity for investors of focused investing was neatly summarised by Warren Buffett speaking to the New York Society of Security Analysts:

"A lot of great fortunes in this world have been made by owning a single wonderful business. If you understand the business, you don't need to own very many of them." [19]

The problem with conventional portfolio diversification is that it increases the chances of making investments in too many companies that too little is known about. So we believe in restricting ourselves to those businesses that firstly we understand and that secondly we know most about.

This is what we mean by limiting ourselves to our 'circle of competence'. Too many investors' circles of competence seem to be a mile wide and an inch deep. We think ours is quite the opposite. We aim to invest in a spread of superior businesses that we know well, which we believe reduces economic risk.

Summing it all up

A share represents a part ownership interest in a real business. We limit our efforts to identifying superior businesses for potential investment using the techniques of Business Perspective Investing. We believe in the philosophy of knowing more about less when it comes to constructing a portfolio. We then wait for the shares to come 'on sale' in the stock market when we think we can buy more in economic value than we are being asked to pay in price. We focus on being partners of management for the long-term. It therefore follows that we don't sell out just because the share price has risen and there is a profit to be taken.

Keith Ashworth-Lord is the Investment Manager of the CFP SDL UK Buffettology Fund. Any investment in this should be based on the information contained in the Prospectus, which is available from the ACD, Castlefield Fund Partners.

"Stocks are simple. All you do is buy shares in a great business for less than the business is intrinsically worth, with managers of the highest integrity and ability. Then you own those shares forever." [20]

Warren Buffett

Reference Sources for Quotations

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6. Philip Fisher, 'Developing an Investment Philosophy', Wiley reprint 1996, p.255
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13. John Burr Williams, 'The Theory of Investment Value', Harvard University Press 1938 (Quoted in 'The Essays of Warren Buffett' by Lawrence Cunningham, Cardozo Law Review 1997, p.86)
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17. Benjamin Graham & David Dodd, 'Security Analysis', McGraw-Hill 1934, p.336
18. Warren Buffett quoted by Jim Rasmussen, 'Buffett Talks Strategy with Students', *Omaha World-Herald*, 2 January 1994
19. Warren Buffett speech to the New York Society of Security Analysts, 6 December 1996 (Quoted in 'Warren Buffett Speaks' by Janet Lowe, Wiley 1997, p.160)
20. Warren Buffett, '*Forbes*', 6 August 1990 (Quoted in 'Of Permanent Value: The Story of Warren Buffett' by Andrew Kilpatrick, AKPE 1994, p.568)

Keith Ashworth-Lord

Keith Ashworth-Lord
Investment Director

Prior to setting up Sanford DeLand Asset Management and the CFP SDL UK Buffettology Fund, Keith had been a self-employed Consultant working with a variety of stockbroking, fund management and private investor clients. He was one of the four individuals from Unicorn Asset Management and Outstanding Companies Digest (formerly Analyst) that set up the Outstanding British Companies Fund in December 2006.

Concurrently he was retained as a Consultant Equity Analyst by WH Ireland Stockbrokers. His analysis work spanned all sectors of the UK stock market searching out suitable, undervalued companies for investment and providing research on them to the firm's institutional clients. His success was rewarded by winning four Thomson-Reuters StarMine stock-picking awards for excellence. These were:

- UK & Ireland, No.7 Overall Stock Picker (2008).
- UK & Ireland, No.2 Stock Picker, Equipment & Machinery (2008).
- UK & Ireland, No.1 Stock Picker, Equipment & Machinery (2009).
- UK & Ireland, No.3 Stock Picker, Equipment & Machinery (2010).

Star-Mine Stock Picking Awards 2008-2010

Between April 2000 and December 2010, Keith managed the equity portion of his own Pension Fund in accordance with the principles of Business Perspective Investing. The Fund's performance has been calculated according to industry standard best practice by State Street Global Services. The results and methodology are shown in Appendix 1. The salient points are as follows:

- Over 10 years and 9 months, the long-only Pension Fund produced an absolute return of +113.7% against a rise of 39.6% in the FTSE All-Share (Total Return) Index and a fall of 1.5% in the FTSE All-Share Index.
- The Pension Fund consistently outperformed its benchmark, the FTSE A/S (TR) Index, over 1, 3, 5 and 10-year intervals.
- From inception, the Pension Fund returned an average annual growth rate of 7.3% compared to 3.5% for the FTSE A/S (TR) Index.
- The Pension Fund outperformed its benchmark in 8 of the 11 years for 2000 through 2010.

His long-only self-invested Pension Fund has consistently outperformed the FTSE All-Share (Total Return) Index

The equity portion of Keith's Pension Fund is now invested in the CFP SDL UK Buffettology Fund. This aligns precisely his interests with those of outside investors, leaving no potential conflicts of interest over the management of capital.

His personal capital is managed alongside outside investors' capital in the CFP SDL UK Buffettology Fund.

The Fund was launched on 28 March 2011 since when it has gone on to become one of the top performers in the Investment Association's UK All Companies sector. In 2015, it was the best performing fund in that sector. On its fifth anniversary, the Fund ranked 7th out of 245 for performance over five-years, 6th out of 256 over three-years and 2nd out of 265 over one-year (source: FE Trustnet). It was included in the Investors Chronicle Top 100 funds listing in 2014 and 2015 and won the Money Observer Best Smaller UK Growth Fund award in 2015 and 2016. Appendix 2 illustrates this perormance.

Please remember that past performance can never be taken as a definitive guide to future returns.

Keith has had the privilege of meeting Warren Buffett and his investment partner, Charlie Munger, on two separate occasions in Omaha, Nebraska. Learning from these masters transformed Keith's understanding of investment philosophy and with it, his investment performance.

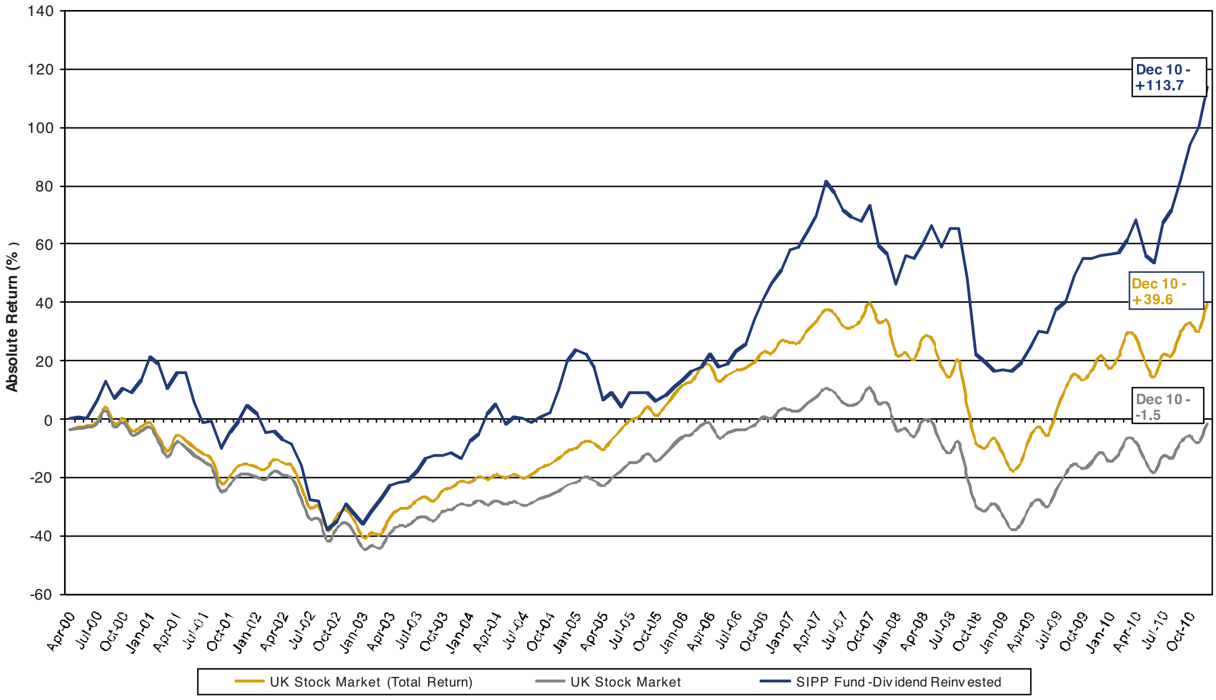
Learning from Buffett and Munger has transformed Keith's understanding of investment and with it his performance.

In July 2016, his book '*Invest in the Best: Applying the principles of Warren Buffett for long-term investing success*' was published by Harriman House.

Appendix 1

STATE STREET. For Everything You Invest In

Keith Ashworth-Lord SIPP Fund versus the UK Stock Market



Summary of Performance

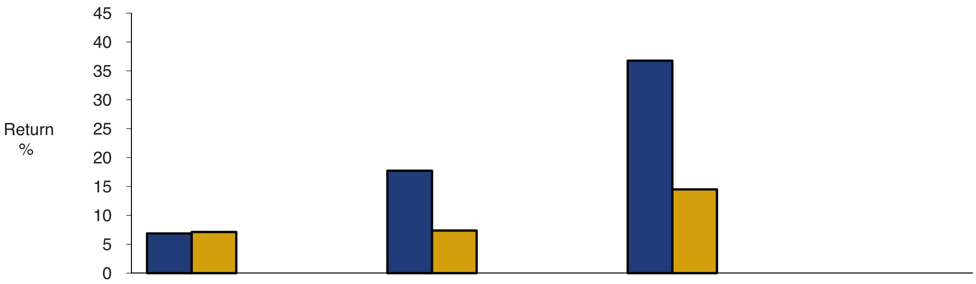
Keith Ashworth-Lord SIPP Fund - TOTAL FUND - PENSION — **Periods to end December 2010**

Benchmark - the UK Stock Market — **Pound Sterling**

Category - TOTAL ASSETS

Fund Returns

	Month to 31 Dec 2010	Quarter 4 to Dec 2010	Year to 31 Dec 2010



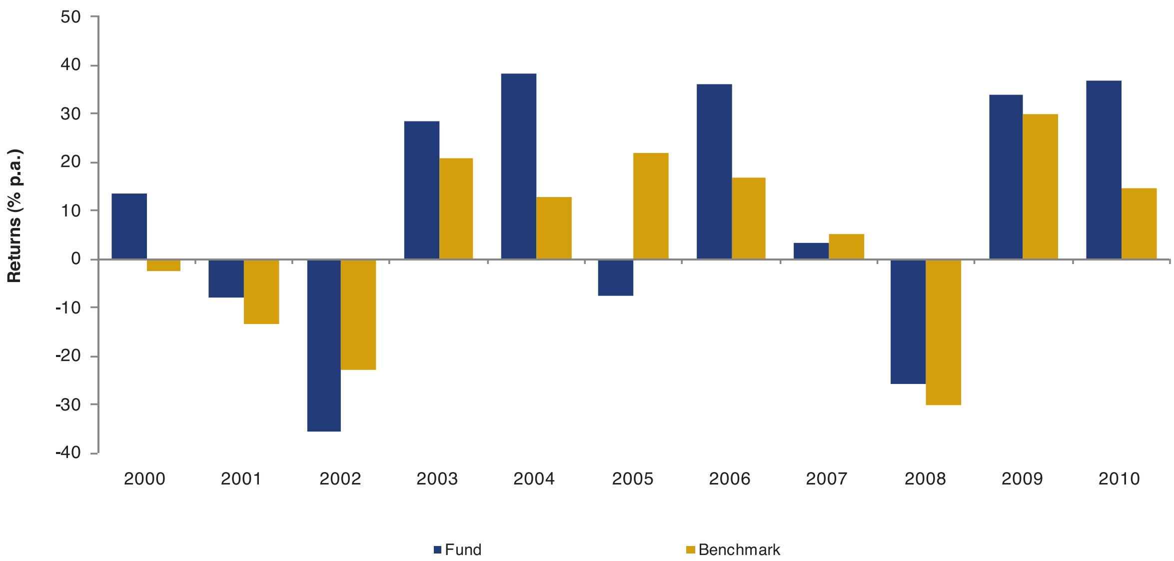
	Month to 31 Dec 2010	Quarter 4 to Dec 2010	Year to 31 Dec 2010
Fund	6.9	17.7	36.8
Benchmark	7.1	7.4	14.5
Relative Return	-0.3	9.6	19.4

The graphs show the performance of the Fund and Benchmark over the latest period and longer term.
The relative return is the degree by which the Fund has out or underperformed the Benchmark over these periods.

Long Term Performance

Keith Ashworth-Lord SIPP Fund - TOTAL FUND - PENSION — **Periods to end December 2010**
Benchmark - the UK Stock Market — **Pound Sterling**

Annual Performance - Fund & Benchmark



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Fund	13.7	-7.8	-35.5	28.3	38.4	-7.4	36.2	3.5	-25.6	34.0	36.8
Benchmark	-2.6	-13.3	-22.7	20.9	12.8	22.0	16.8	5.3	-29.9	30.1	14.5
Relative	16.7	6.4	-16.6	6.2	22.6	-24.1	16.7	-1.8	6.2	3.0	19.4

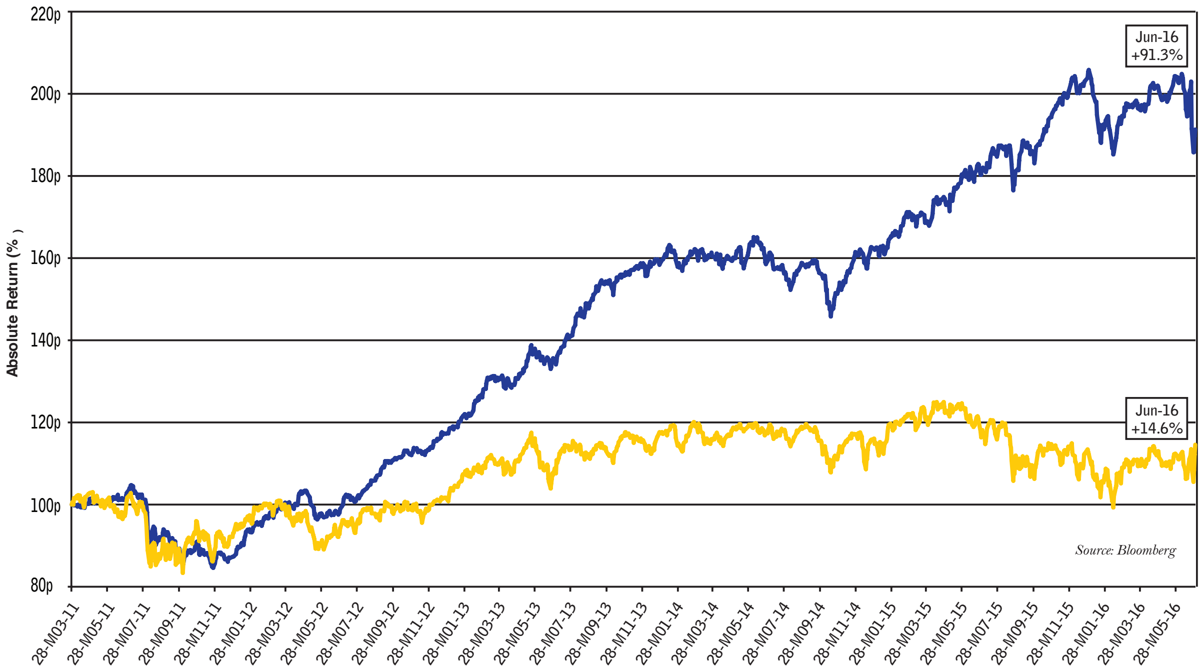
Individual Manager Performance - Rates of Return

Keith Ashworth-Lord SIPP Fund - TOTAL FUND - PENSION — **Periods to end December 2010**
Benchmark - the UK Stock Market — **Pound Sterling**

	% of Fund	Latest Month	1 Year	3 Years	5 Years	10 Years	Since Inception
TOTAL FUND - PENSION	100.0	6.9	36.8	10.9	13.9	6.5	7.3
THE UK STOCK MARKET							
UK EQUITIES	56.6	10.0	45.6	13.3	15.8	7.2	8.6
THE UK STOCK MARKET							

Appendix 2

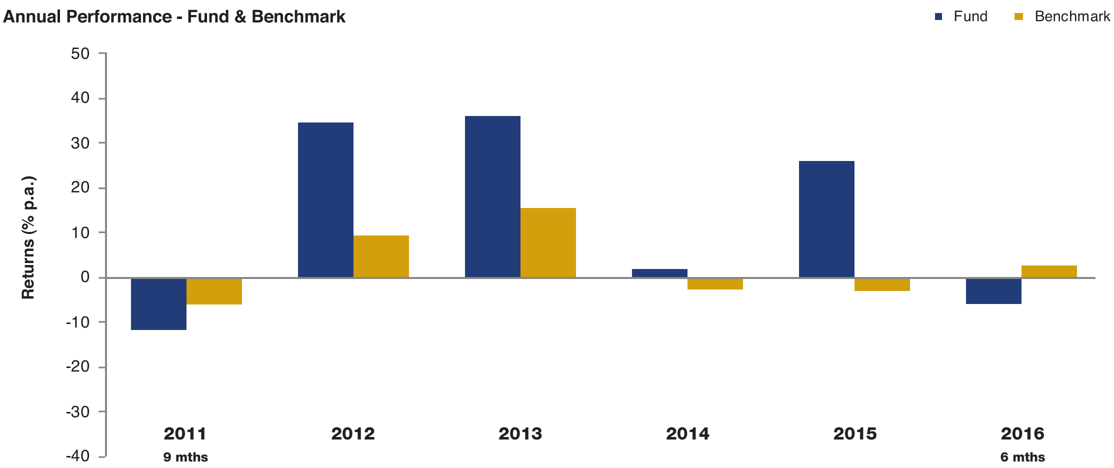
CFP SDL UK Buffettology Fund versus the UK Stock Market



Long Term Performance

CFP SDL UK Buffettology Fund
Benchmark - the UK Stock Market **Pounds Sterling**

Annual Performance - Fund & Benchmark



	2011	2012	2013	2014	2015	2016
Fund	-12.6	34.2	36.0	1.7	26.9	-7.0
Benchmark	-6.9	8.2	16.7	-2.1	-2.5	2.1
Relative	-6.2	22.6	21.6	4.5	41.4	-14.7

Past performance of an investment is no guide to its performance in the future.
Investments, or income from them, can go down as well as up.

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