




**VALUEWORKS**

QUALITY ASSETS COMPELLING VALUATIONS



*“Controlling Quality Assets  
at Compelling Valuations”*

# *We are value investors.*

Our name means a lot to us. We believe that value investing works because controlling quality assets at a discount to what they are worth earns attractive returns over time. This principle is the core of each investment decision we make.

Every security is a financial instrument that represents some type of claim against assets. It is the work of every value investor to understand what those assets are, what they are worth, and what price they are paying to control them when they buy a security.

It is a straightforward proposition, but executing it well takes both technical expertise and discipline.

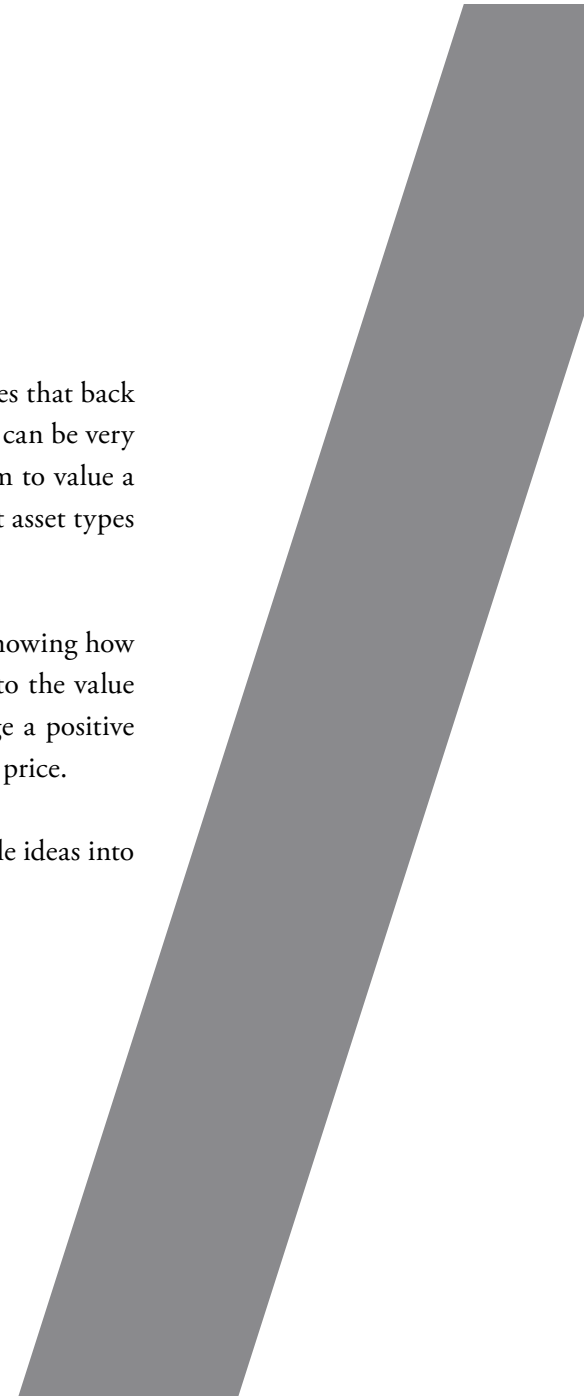


# EXPERTISE

The core of our investment process is an expertise in understanding the value of the going businesses that back the securities we buy. There are reasons why these businesses have value. The drivers of those values can be very different from one business to the next. A strong value investor has a deep tool kit that allows them to value a wide array of different businesses and other assets. Our expertise in valuing a wide array of different asset types is central to our process.

The ability to evaluate the price we are paying to control corporate assets is as important to us as knowing how to value the assets themselves. Assessing senior securities and other claims that could be entitled to the value of those assets is an inherent part of this process. Evaluating those senior claims can both change a positive conclusion to a negative one and sometimes, unearth a way to control those assets at an even better price.

It is our expertise in both valuing assets and appraising claims that allows us to translate these simple ideas into a complete and sophisticated investment process.






## DISCIPLINE & RISK CONTROL

Risk is best controlled in our process through knowledgeable security selection, reasonable diversification and steadfast discipline. Careful and diligent security selection can lower the chances that we simply make a mistake and miss-appraise the assets or liabilities; and it can limit the likelihood that something changes in an unexpected way to fundamentally alter the math. Diversification can also limit the impact of a single mistake; it can also limit the impact of a company, sector or group going more out of favor and trading at a larger discount to the underlying value.

In periods where investor enthusiasm or despair drive overall valuation to particularly large premiums or discounts to underlying value – ValueWorks has found the best risk control to be discipline. Our experience has been that those larger disconnects, whether in a sector or the overall market, run their course remarkably quickly; often during these events the emotional temptation is to move in a certain direction and it is discipline that keeps the portfolio on track for long term results.



*“Truly successful investing takes place over long periods of time.”*



# DEFINING OUR INVESTMENT PROCESS

On any given day, security prices reflect and react to many factors beyond the underlying value of a business. Such disparities between a security's price and a business's value are what we as value investors seek out. At ValueWorks once we identify this type of situation we then look for opportunities where the value of the underlying assets is growing, and where the disparity in valuation is expected to narrow. We do this by using a well-planned series of steps.

## **1** *Identification*

We often find investment opportunities where quality securities have fallen out of favor with the market. Whether or not we identify a security through this contrarian approach, we will always determine if a security is a promising prospect by submitting it to an abbreviated version of our process. If the security passes this initial test, we will then take an in-depth look at the company.

## **2** *Assessment*

When we value a company, we determine its 'underlying value' by identifying, analyzing and pricing its assets. We also determine whether the asset base is likely to increase in value over time. We will decide to invest in a company only if its assets are currently undervalued and appreciating.

## **3** *Appraisal*

Once we determine that a security trades for less than the value of its assets, we identify the key factors that could eliminate this valuation gap and increase the security's price. We then identify and value all the claims against the company's assets. Only then can we evaluate the price required to control a particular instrument—and make either a positive or negative investment decision.

## **4** *Re-evaluation*

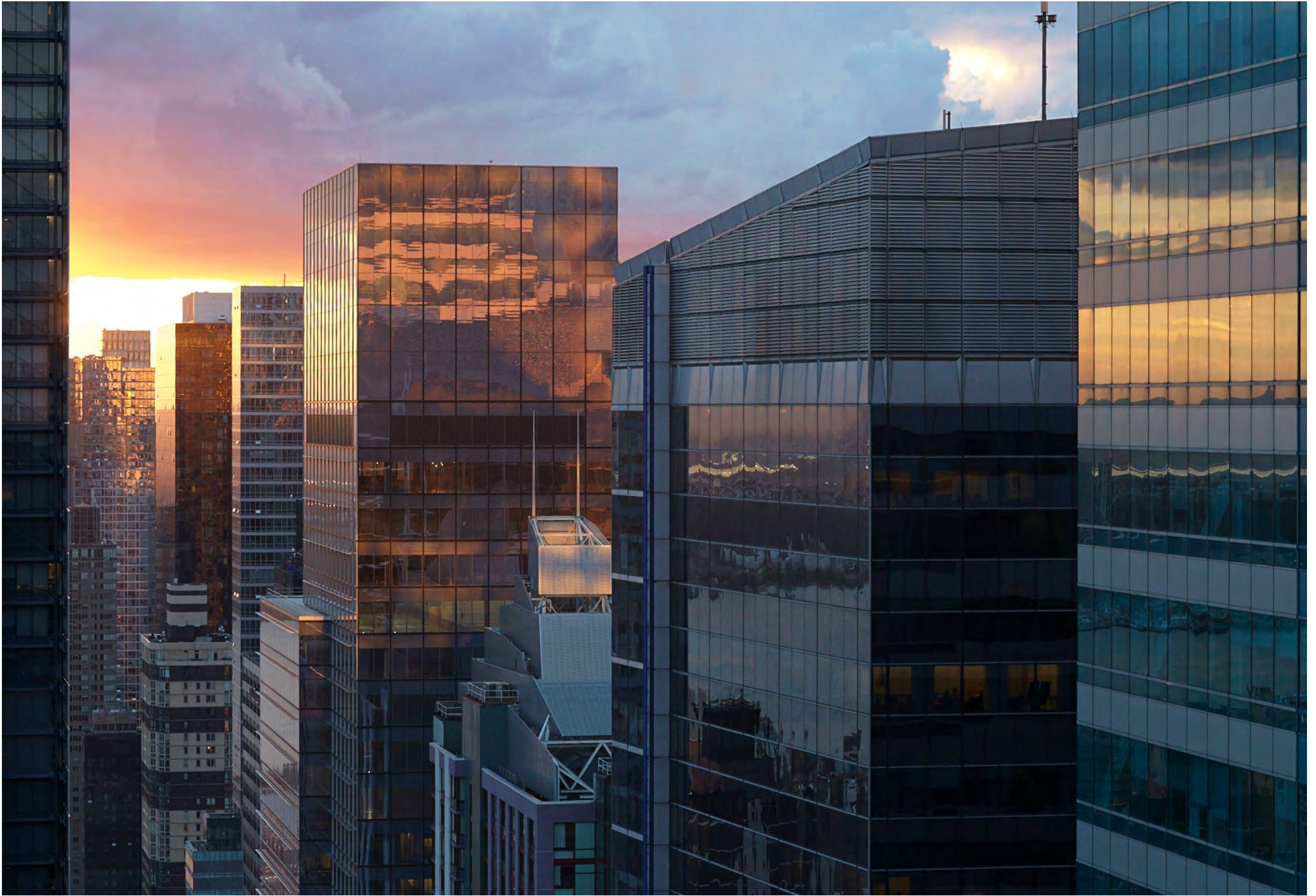
We monitor our portfolios to ensure that companies continue to exhibit the traits that originally made them good investments. We are also watchful so that changes in market conditions do not unexpectedly alter the merits of particular investments.

## **5** *Exit*

We sell securities when they have realized our estimate of their assets' value, or when new developments lead us to believe that part of our original conclusion to buy them is no longer valid.

*“Our consistency of process makes us an excellent investment choice for a core portfolio manager and as a diversification vehicle.”*





# PORTFOLIO ARCHITECTURE

We translate our value process into a number different portfolio architectures designed to meet specific investor objectives. We manage individual portfolios that are each grouped into a composite of similar portfolios that employ a set of portfolio rules.

In every composite we seek to create diversification by creating exposure to a large number of industries and sectors rather than by simply including a large number of individual companies. By our measure, there is more diversification in 25 securities spread among fifteen industries than 100 securities spread across five industries.

Then, for each composite we use different rules to create portfolios that fulfill particular investor objectives. These composite rules guide the mix of asset classes (equities, high yield, investment grade debt), market capitalization, position size, use of leverage, short exposure, and the use of options.

## HOW TO USE US

At ValueWorks, the consistency of our process makes us an excellent investment choice for a core portfolio manager or as a diversification vehicle. A second reason our portfolios can be considered for either a stand-alone or an allocation strategy is that they are carefully constructed to include a strategic mix of very different underlying assets; this creates significant diversification with a relatively small number of individual investments.

We invest for the long-term. Our strategy focuses on finding portfolio gains over full economic cycles, not day-to-day, month-to-month or even year-to-year. Our typical investment generally has a holding period of at least two years, so our portfolios are relatively tax efficient and appropriate for investors with longer time horizons

*“At ValueWorks we convert a simple premise into a sophisticated investment discipline”*







# VALUEWORKS

We are value investors because we have conviction in the underlying logic of the approach. We have also had the benefit of testing this discipline through some extraordinary – and extraordinarily different – market periods.

Value investing is not always easy, and is not always in fashion. It requires both a high level of expertise and steadfast discipline to use it adeptly in all sorts of economic and market climates.

At ValueWorks we have deployed this approach through periods of huge investor enthusiasm and euphoria, through periods of financial crisis and panic, and even through some moments of calm and investor ennui. Through it all, we have stayed with this discipline, and draw the simple conclusion that is in our name.

## CHARLES LEMONIDES, FOUNDER



Charles founded ValueWorks with the goal to broaden availability of his conceptual value investing discipline in the retail and institutional investor communities. Charles leads investment research and portfolio management at ValueWorks and has final authority for all investment decisions. He is also the firm's Chief Compliance Officer.

Charles' philosophy of value investing was born at the regional brokerage Gruntal & Co. During his tenure in Gruntal's Research Department beginning in 1986, Charles honed skills covering risk arbitrage, the banking industry, and special situations. He notably spearheaded the addition of high yield bonds and distressed securities to the department's coverage. In 1994, Charles joined Sterling Advisors, an investment advisory unit of Gruntal & Co.; he became Chief Investment Officer of Sterling the following year. In 1999 Charles merged this internal investment practice into the independent advisory firm M&R Capital. As part of the merger Charles was made a Partner and the Chief Investment Officer of M&R and began branding the composites he brought over from Sterling under a ValueWorks banner, laying the ground for establishing ValueWorks as a fully independent firm in October of 2001.

Charles received his Bachelor's degree in History from Vassar College and pursued graduate studies in Economics at New York University. He received his CFA designation in 1989 and is a member of the New York Society of Security Analysts. Charles has been featured in prominent print and broadcast financial media throughout his career. Charles is a lifelong New Yorker and an avid traveler. The only place he finds more engaging than NYC is the place on the map he is visiting next.