
ST. JAMES INVESTMENT COMPANY

INVESTMENT STRATEGY

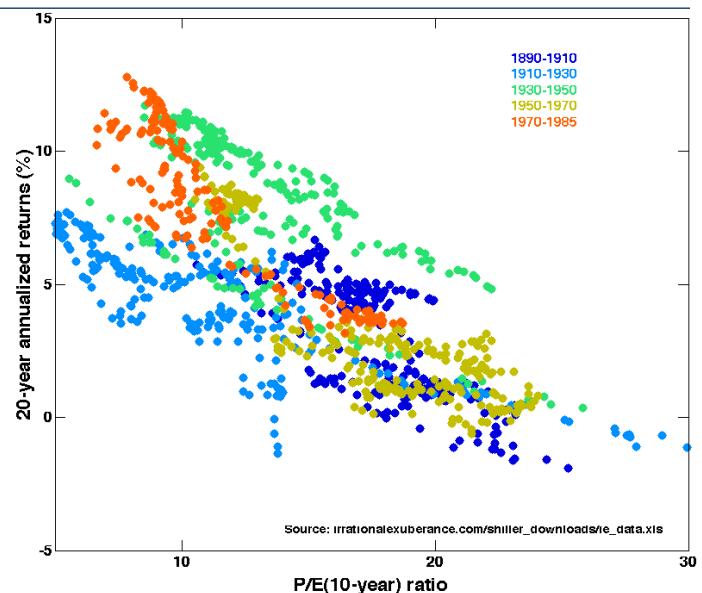
At the core of our approach is the fundamental belief that the **price we pay for an investment determines the return**. Further, trying to keep pace with the market in all environments likely promotes poor decisions and increases the probability of losses. By focusing on the St. James process, positive outcomes over complete market cycles emerge.

Importantly, we believe buying an asset at fair value will only generate an average return. By contrast, we invest in proven businesses trading at a discount. As fair value is a moving target subject to uncontrollable variables, we deploy capital only when a margin of safety offers us sufficient protection and investment return potential.

THE IMPORTANCE OF ENTRY PRICE

Buying good assets at cheap prices is the oldest and most successful approach to investing. The chart to the right is from Robert Shiller's 1999 book, "Irrational Exuberance." Robert Shiller is a Yale professor who developed the CAPE (Cyclically Adjusted P/E ratio).

Going back to 1890, each dot represents the monthly value of the stock market (color coded for the era), plotted against the subsequent 20-year annualized return. The relationship is simple—the cheaper the market (lower P/E ratio), the better the investment return during the subsequent 20-year period. **Value matters for the long-term investor.**



DIFFERENTIATORS

Three factors distinguish St. James: **independence, patience, and a clearly defined, consistently applied investment process.**

As a wholly employee-owned independent firm, we proactively identify proprietary investment opportunities and conduct our own research. Original research ensures a thorough understanding of a business, providing us the confidence to invest in contrarian ideas and understand the forces that will either drive a business model forward or slow its progress.

As patient investors, we view each company as an enduring business rather than a string of quarterly earnings projections. Notably, investors' perception of an equity security fluctuate more widely than the underlying fundamentals. Opportunities for the patient investor appear when fundamentals and price diverge.

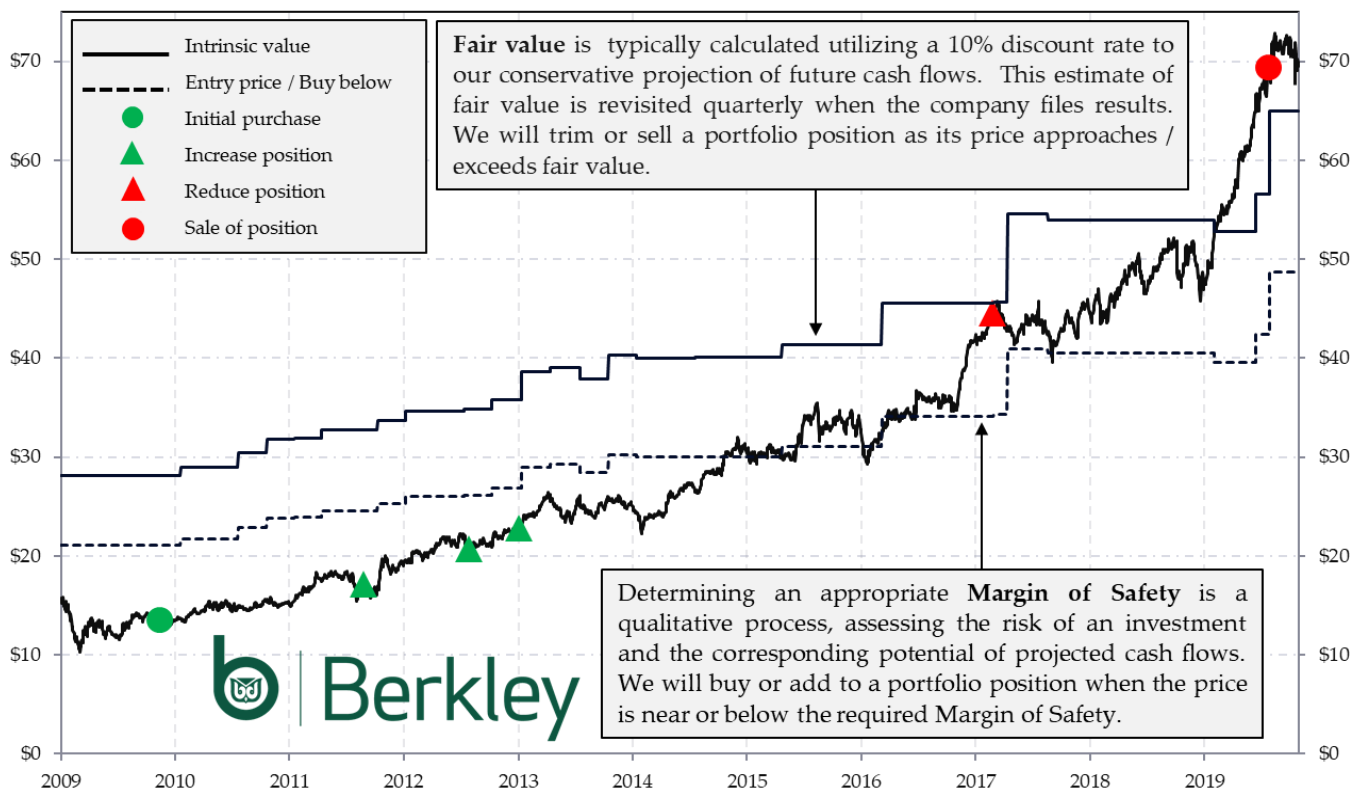
Our proven and repeatable process assures our clients that we adhere to our core competencies and mitigate behavioral biases that might impair sound decision-making. Although emotional factors can often drive market behavior short-term, investing in a quality business at a compelling price is typically rewarded.

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INVESTMENT PROCESS SUMMARY

- ⇒ Maintain a “**wish list**” of **high-quality companies**, characterized by sound balance sheets and enduring business models. We emphasize a high probability of consistent cash flows over a long-term horizon.
- ⇒ For each we **quantify fair value**, applying a 10% discount rate to our conservative cash flow projections.
- ⇒ **Determining a “margin of safety”** is a proprietary qualitative assessment of the risks associated with a company’s business model.
- ⇒ **Portfolio Construction** incorporates weighting each stock consistent with the margin of safety, sizing a position in accordance to the discount to fair value / potential for gain.
- ⇒ **Trim and eventually sell** a stock when price approaches / exceeds fair value or fundamentals change.

INVESTMENT PROCESS EXAMPLE: W.R. BERKLEY CORP. (NYSE:WRB)



A list of all Core Equity positions, within the last twelve months, is available upon request. It should not be assumed that recommendations made in the future will be profitable, or will equal the performance of the security shown above.

RISK MANAGEMENT AND CASH

We believe our consistency in waiting for compelling entry prices and the corresponding utilization of cash has enabled us to avoid taking “the big hit.” By avoiding significant losses, compounding is not interrupted and market corrections can provide attractive investment opportunities. Of note, **cash is not a tactical market call, but rather a by-product of our process.**

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