

## INTRODUCTION

Hungerpiller Capital Management, LLC is an Independent Investment Advisor with offices in Savannah, Georgia and registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. Our primary businesses are discretionary management of and non-discretionary counsel for portfolios of marketable, publicly traded securities. Our clients are confidential. HCM's guiding philosophy is to provide appropriate, prudent, and informed Investment Advisory services that exceed the expectations of each of our clients.

Before accepting an assignment, HCM will review a full range of issues for each prospective client. Among these are personal or portfolio considerations, expected rate of returns, tolerance for risk, tax implications, investment time horizon, etc. Upon acceptance, portfolio reviews are conducted as appropriate and necessary but no less frequently than quarterly.

## ASSET ALLOCATION

HCM believes that appropriate asset allocation and adequate diversification within each asset class are important contributors to or preservers of wealth when measured over reasonable periods of time. These are common themes with each one of our clients.

The allocation of assets within a portfolio is a process undertaken to maximize the appropriate balancing of risk and return. Specifically, equities, fixed income securities, and cash equivalents, have expected returns over measured historical time frames. These returns differ between the asset classes. This variance is used to balance the expectation of a return and the risk of not achieving that return. HCM will allocate assets at various percentage levels within a portfolio as appropriate for each individual client's financial circumstances, investment objectives and tolerance for risk.

## EQUITY SECURITIES

Also of importance is the specific selection or endorsement process undertaken to diversify equity securities recommended for inclusion in portfolios. While diversification may periodically contribute to underperformance in up markets, it may also contribute to out performance in down markets. As a guideline, HCM prefers to allocate 65% - 75% of the equities of any given portfolio in what we consider to be the most attractive 3%-5% of the companies across at least 7 of the 10 economic sectors of the S&P 500. Qualification under one or more of the following criteria is essential:

- 1) Proven earnings growth with attractive fundamental and technical characteristics.
- 2) Evidence of conditions leading to an acceleration of revenues and earnings.
- 3) Leaders in out of favor sectors.
- 4) Out of favor cyclicals with attractive fundamental and technical characteristics.
- 5) Undervalued assets relative to breakup or takeover estimates.
- 6) Special situations such as emerging technology, reorganizations, etc.

The remaining 25%-35% equity allocation of the portfolio will typically be companies not in the S&P 500 but which do fit these same criteria. Generally a portfolio will hold no more than 20-30 equities.



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## FIXED INCOME SECURITIES

With respect to Fixed Income Securities, HCM will only select or endorse U.S. Government or Agency issues, Brokered CDs with FDIC coverage, and Corporate or Municipal issues that qualify as Investment Grade. Additional particular attention is paid to such issue specific items as liquidity, put or call features, payment cycle, and ratings history. Related factors such as taxes, yield curve characteristics, maturity, and relative spreads are also of significance in the construction of the Fixed Income portion of a client's portfolio. This class of assets can be influential in the management of volatility, creation of income, maintenance of liquidity, and preservation of capital.

## CASH EQUIVALENTS

HCM is an advocate of maintaining a position in cash equivalents, such as money funds, for liquidity purposes. Often, especially in periods of extreme volatility, liquidity is useful to take advantage of opportunity or as a defensive asset allocation. It is rare for the cash equivalents allocation to be less than 10% or greater than 25% for any extended period of time.

## MONITORING AND MANAGEMENT

The monitoring and management of a client's portfolio is subject to a wide range of complex and sometimes unpredictable variables. HCM engages a process of active analysis on each security in a portfolio and the markets in which these securities trade. Valuation, technical, economic, and political issues are continuously reviewed. The impact of time horizons, portfolio weightings, and tax implications are also judged in the context of each client's objectives and tolerance for risk. Finally, we like to remain mindful of the following guidelines in our efforts:

- 1) Do not reinvent fundamentals to justify momentum valuations.
- 2) Use the psychology of the crowd; don't become a part of it.
- 3) Single investment methodologies produce one-dimensional decisions.
- 4) Investors and speculators price the same securities at the same time.

In closing, thank you for your interest. We appreciate your consideration of Hungerpillar Capital Management.



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