



Artko Capital LP

# Roundtable Forum 2020

March 11th, 2020

## Manager Introduction: Peter Rabover

Background – 20 years of experience; 5 years as PM of Artko Capital LP

- Actively value investing since 2000, starting as PM of undergrad student club to today as PM of Artko Capital LP
  - Being invested during last two real (2001,2008) major market crashes and recoveries has been a valuable career asset
- Extensive senior level buy-side experience at two reputable value funds, Scharf Investments (large cap value) and Hahn Capital (mid cap value):
  - significant corporate finance experience as well as participating in close to 50 M&A transactions has also been a valuable asset in microcap investing in picking right buy out candidates
- Semi-professional poker player and former competitive ultra marathoner/Ironman
  - has made me become a much better PM/risk allocator/ability tolerate volatility and short-term pain with long term vision
- Education: Duquesne University undergrad, CFA Charter attained at 24; University of Virginia Darden MBA (completed both degrees early)
- Personal: 40 years old; Former Peace Corps Volunteer (co-founder of first microfinance fund in Kazakhstan); 15 years of Big Brothers Big Sisters mentorship; avid outdoorsman



## Partnership Introduction: Why Nano/Microcaps?

- A fantastic playground of highest absolute return opportunities in the smallest quadrants for experienced stock pickers. **Our current median market cap is a \$130mm.**
- Inefficiencies exist because of inability to scale for funds; Investments too small for typical FO/HF/RIA vehicles leaving a dearth of players creating inefficiencies
- Volatility/illiquidity is very high, however buying quality balance sheets and incentivized management teams allows us to sleep well at night

Quartiles		Low Liquidity	Mid-Low	Mid-High	High Liquidity
Micro-Cap	Geom. Mean:	16.05%	15.68%	9.57%	0.11%
	Arithm. Mean:	18.38%	19.23%	14.77%	5.23%
	Std. Dev.:	22.67%	28.52%	34.54%	33.07%
	Avg. No. Stocks:	345	181	124	98
Small-Cap	Geom. Mean:	15.65%	14.32%	12.26%	6.00%
	Arithm. Mean:	17.29%	16.83%	15.52%	10.11%
	Std. Dev.:	19.35%	23.73%	26.86%	30.09%
	Avg. No. Stocks:	199	201	173	174
Mid-Cap	Geom. Mean:	14.03%	13.88%	12.89%	8.40%
	Arithm. Mean:	15.38%	15.54%	14.99%	11.87%
	Std. Dev.:	17.59%	19.47%	21.54%	27.35%
	Avg. No. Stocks:	130	177	203	238
Large-Cap	Geom. Mean:	11.44%	12.28%	11.97%	9.07%
	Arithm. Mean:	12.66%	13.39%	13.46%	11.99%
	Std. Dev.:	16.22%	15.40%	17.61%	24.53%
	Avg. No. Stocks:	74	188	248	238

**Liquidity Vs. Size**  
U.S. Equity Annual Return Quartiles 1972-2009

		Liquidity			
		Low			High
		1	2	3	4
Small	1	17.87%	16.88%	13.92%	5.92%
	2	16.49%	14.81%	11.33%	6.08%
Medium	3	14.82%	14.12%	12.52%	9.13%
	4	12.29%	11.37%	11.36%	9.46%
Large	1	12.29%	11.37%	11.36%	9.46%
	2	12.29%	11.37%	11.36%	9.46%

Top 3,500 stocks by quartile, rebalanced annually  
Liquidity dominates size as a return predictor



## Partnership Introduction: Why Artko Capital LP?

### Product Focus:

- Vast majority of investments has been in microcap and nano cap securities with a median market cap today of \$130mm; and as small as \$10mm
  - As a result product has an official new money capacity of \$35mm with capital returns starting at \$65mm
- A concentrated portfolio of high absolute upside securities with low permanent capital impairment probability downside. The majority of the partnership's focus is on unindexable securities to provide a complimentary, not a competitive, product to indexable alternatives.
- "Pick Your Poison: Leverage, Concentration, or Market Risk" – from an allocator interview on SumZero.
  - Our "poison" is concentration and liquidity/volatility risks
- Given liquidity profile and lock up, product resembles a hybrid private public equity vehicle without the leverage, rather than a typical public equities strategy



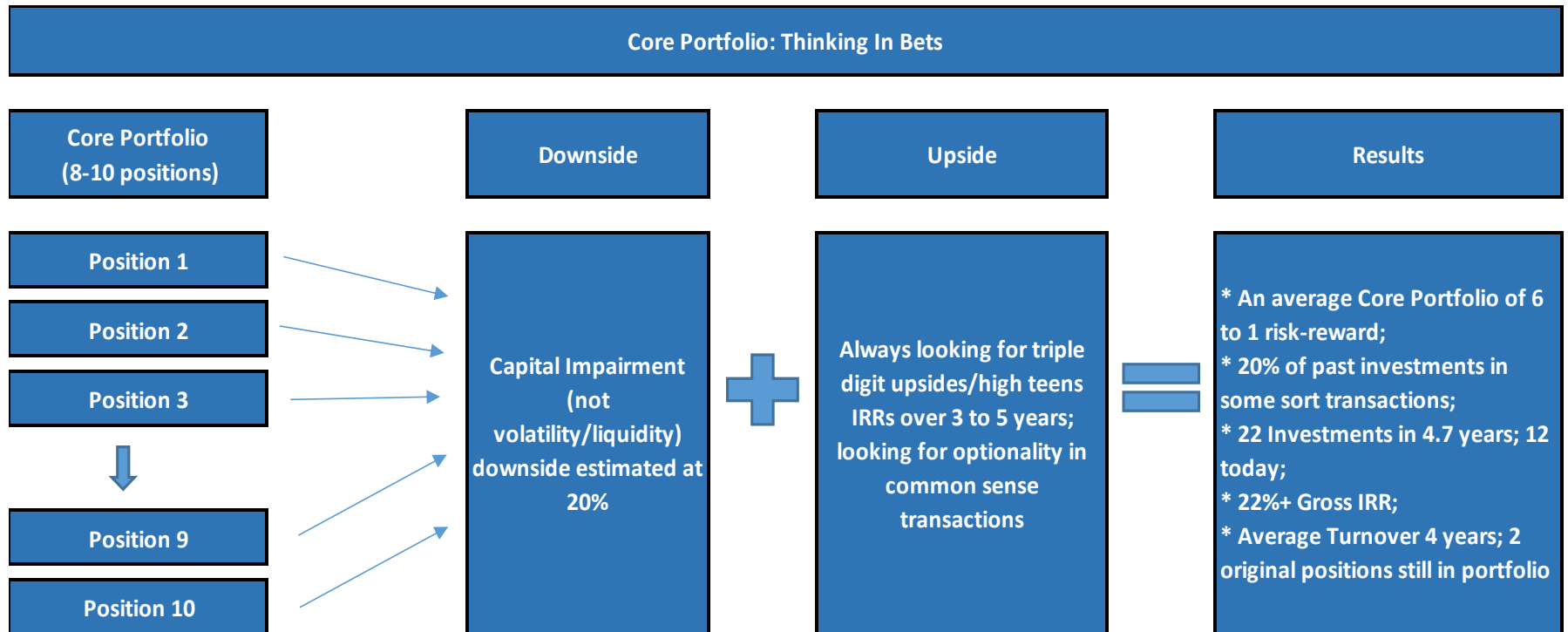
## Partnership Introduction: Why Artko Capital LP?

Process Focus on Margin of Safety, due diligence and low probabilities of permanent Capital Impairment: Buying at balance sheet prices and selling at going concern prices

- Microcap management teams tend to be inexperienced in managing capital structures and our focus remains on high quality balance sheets supported either by visible/hidden assets or private values of certain segments. Current median/weighted average portfolio balance sheet is 0%/4.4% debt/net cash.
- Clean balance sheets leave “free optionality” for transactions: first 4.5 years over 20% of Core Portfolio has had some sort of value unlocking (sale/recap/buyback) transaction happen
- Focus on Incentives: Always seek to be co-invested with management team/CEOs. We believe that this creates an additional layer of margin of safety though one that is hard to quantify: Current median/average insider holdings are 17%/20% with \$30mm average management team/board investment.
- Focus on valuation, buying at low multiples/net asset values, understanding cost structures and profitability opportunities. With 2020 a lost year for many companies current estimates are at 4.0X EBITDA/14% FCF yield for 2020/2021 time period.
- Established significant microcap investor network that is a competitive advantage in sourcing and researching ideas



# Process Overview as of 12/31/2019



## Artko Capital LP: Why now?

- Since inception on 7/1/15 Russell Microcap has returned almost 0% as of 3/9/2020 vs Artko LP net at ~50% (12/31/2019 audited numbers are 101.8% vs 29%) and S&P 500 at 46% (71.8% for 12/31/19). The historically big gap in performance between large caps and microcaps has created significant opportunities in the market.
- Since inception Artko Capital LP has had 3 negative quarters and has returned 21%, 24%, and 61% off the volatility bottoms in the following 12 months.
- Continued success in picking microcap stocks, a statistically cheap portfolio at a median 4.0X 2020/2021 EBITDA and 14% Free Cash Flow yield with zero debt creates an excellent opportunity to get in at close to the bottom
- The current gap between private equity and public equity microcap valuations is at approximately 4X-6X EBITDA turns with substantial interest by significant dry powder endowed private money



## Artko Capital LP: Diversified, Stable, Transparent

- Started partnership with one \$25,000 LP; today (3/9/2020) 45 qualified LPs (HNW/Single FOs) at approximately \$7.5mm AUM out of \$35mm capacity
- No secrets: Every position and significant investment decision discussed in detail in quarterly letters to partners
- Have always treated this as a lifetime investment: personally subsidized partnership expenses first 4.5 years; host an annual dinner for partners in San Francisco; intend to do this until retirement (30+ more years);
- Initial lock up is 3 years; with management fee discounts given to longer lock ups; weighted average lock up today is 3.5 years; = stable business with visibility for GP
- Top notch infrastructure: Legal, Audit, Fund Admin established from Day 1; have a back up PM who owns 2.5% of GP to mitigate "one man risk"





## Q&A

*“It's easy to grin / When your ship comes in / And you've got the stock market beat. / But the man worthwhile, / Is the man who can smile, / When his shorts are too tight in the seat” – Judge Smails, Caddyshack*



Performance 12/31/2019 Statistics Appendix  
(Audited)

	Artko LP Gross	Artko LP Net	Russell 2000 Index	Russell MicroCap Index	S&P 500 Index
<b>YTD</b>	<b>71.5%</b>	<b>61.0%</b>	<b>25.5%</b>	<b>22.4%</b>	<b>31.5%</b>
<b>1 Year</b>	<b>71.5%</b>	<b>61.0%</b>	<b>25.5%</b>	<b>22.4%</b>	<b>31.5%</b>
<b>3 Year</b>	<b>17.5%</b>	<b>13.2%</b>	<b>8.6%</b>	<b>6.3%</b>	<b>15.3%</b>
<b>Inception 7/1/2015</b>	<b>146.7%</b>	<b>101.8%</b>	<b>41.7%</b>	<b>29.6%</b>	<b>71.8%</b>
<b>Inception Annualized</b>	<b>22.2%</b>	<b>16.9%</b>	<b>8.1%</b>	<b>5.9%</b>	<b>12.8%</b>
<b>Monthly Average</b>	<b>1.8%</b>	<b>1.4%</b>	<b>0.8%</b>	<b>0.6%</b>	<b>1.1%</b>
<b>Monthly St Deviation</b>	<b>5.1%</b>	<b>4.6%</b>	<b>4.7%</b>	<b>5.0%</b>	<b>3.5%</b>
<b>Correlation w Net</b>	<b>-</b>	<b>1.00</b>	<b>0.78</b>	<b>0.75</b>	<b>0.71</b>

