

Finding the Best Investment Opportunities in the World... from Boulder, CO

We're often asked how a small investment team in Boulder, Colorado competes on a global stage with other global and international investment managers. After all, we're not in New York, London, Hong Kong or another widely recognized global financial hub. For the team here at Chautauqua Capital Management, we can't imagine it any other way. Our decision to be based in Boulder, away from the literal and figurative noise of larger financial districts, is intentional.

BOULDER FACTS

Boulder is located 25 miles northwest of Denver—43 miles from the Denver International Airport, the fifth busiest international airport in the U.S. Boulder is home to approximately 110,000 residents, as well as the University of Colorado-Boulder. For years, it has attracted academics and other professionals, in part due to its prominent university. In fact, in 2017, Boulder was ranked the #1 city in Bloomberg's "Brain Concentration Index," which tracks U.S. business formation as well as employment and education in the sciences, technology, engineering and mathematics as well as the most educated county in America.¹ Boulder was also rated the "Happiest City in the United States" in October 2017 by National Geographic due to its scenery, culture and world-class quality of life.²

ATTRACTING TALENT

No surprise to us, Boulder is in fact a desirable city where people want to live and work. This is incredibly important for attracting the best and brightest investment talent. Our investment team operates as an autonomous investment boutique supported, in non-investment functions, by the strength and stability of, employee-owned, Baird. The result is a credentialed team whose primary focus is on generating superior risk-adjusted returns through stock selection while providing excellent client service.

Team Member	Educational Background	Years of Experience
Jesse Flores, CFA Partner	MBA, Stanford University BS, Cornell University	16
Haicheng Li, CFA Managing Partner	MBA, Stanford University MMSc, Harvard Medical School MS, Harvard University BA, Rutgers University	21
David Lubchenco Partner	MBA, University of Denver BA, The Colorado College	30
Nate Velarde Partner	MIDS, UC Berkeley MBA, University of Chicago BA, University of Chicago	21

CREATING THE IDEAL INVESTMENT ENVIRONMENT FOR DIFFERENTIATED ALPHA

In the late 19th and early 20th centuries, Chautauqua (pronounced "Shuh-tawk-wuh") assemblies were a popular way for intellectual, political, cultural and creative thinkers to share new ideas and knowledge. Away from the distractions of city life, experts were able to delve deeply into their subject matter and connect with each other. This tradition inspires our intellectual curiosity and collaborative approach.

From our offices in Boulder, Colorado, our team has access to best-in-class technology and real-time global communication, allowing us to maintain geographic distance from the distractions of crowded financial districts while still being connected. Being strategically located away from the noise and groupthink of larger markets, our investment professionals think independently and focus on a time-tested investment discipline. This is evident in our portfolios' high active share ratios and the investment team's ability to deliver differentiated alpha over the long-term. In other words, our results don't simply track the index.

HIGHLY CONCENTRATED, CONVICTION-WEIGHTED PORTFOLIOS

The environment here is ideally suited for our fundamental approach to investing. We have a long-term investment horizon and manage concentrated, conviction-weighted, quality growth portfolios. We typically hold about 40 stocks in our global portfolio, and a subset of 30 non-US stocks in our international portfolio, with an average annual turnover rate of approximately 20%. Another way of saying this is that we hold stocks on average for five years. Based on this, investment team ratio is less than seven stocks per person over a five-year period. When compared to the typical 100 plus stock portfolio that is turned over 100% per year our competitors would need more than 70 people to match our coverage. No firm has a 70-person team because small groups can work much more cohesively. Consequently, we are both able to have an understanding advantage and be more nimble to rapidly adjust to changing market conditions.

¹Bloomberg.com "The Smartest Americans Are Heading West," Vincent Del Giudice, Wei Lu, and Agnel Philip, October 10, 2017

²Nationalgeographic.com "Boulder, Colorado: The Happiest City in the United States," Nancy Gupton, October 27, 2017

Finding the Best Investment Opportunities in the World

Upon formation, in January of 2009, we decided to create a distinctive decision structure that would enable us to generate superior risk adjusted returns through stock selection skill. We have organized ourselves as generalist portfolio management team members that possess specialized skills. The benefits of our differentiated approach are multiple:

1. We avoid the bias that results from analysts who are incentivized to sell ideas to portfolio managers.
2. We avoid problems brought on by industry analyst's lack of full market perspective.
3. We do not place too much reliance on a single "all knowing" portfolio manager.
4. We have better team harmony because, at the end of the year, we all accept full credit and blame for everything.
5. Continuity and succession risks go away when everyone is steeped in every holding and has mastery of the process.

BOTTOM LINE

Chautauqua's structure and investment process are designed to generate superior risk-adjusted returns through superior stock selection. Being based in Boulder, where we can think independently and attract the industry's best talent, is an advantage.