



EXCEPTIONAL PEOPLE EXCEPTIONAL COMPANIES

Warren Buffet wrote that he has “never succeeded in making a good deal with a bad person.” Our collective experience has been the same. At Compass, we look for companies with superior, diversified, and growing businesses that are run by strong management teams. Unfortunately, poor managers do not walk around self-identifying and neither do exceptional managers. Judging the quality of management teams and their governance is more subjective—more of an art than a science. So, how do we do it? By reading piles of reports about companies and their competitors, but also by visiting corporate headquarters, meeting teams, and asking many open-ended questions. A common thread of our companies’ management and lower-level teams is integrity, in addition to skill. Skill without integrity is insufficient.

One illustrative example is a Midwest-based industrial supplies company. The CEO has been in place since January 2016 and the CEO previously served as CFO beginning in 2002. In January 2016, the company had 2,700 stores, annual revenues of \$3.9 billion, and free cash flow per share of approximately \$0.89. Three years later, the company’s annual revenue is projected to be \$5.2 billion, with a free cash flow of approximately \$1.51 per share.

In 2015, the company made the strategic decision to pivot from focusing on store openings to vending machines and onsite locations. As a result, the number of physical stores dropped 18% in 2018. Meanwhile, we expect onsite locations (sales and service) to climb 15% and vending machine installations to rise 10% in 2019. This ongoing transition reduces the amount of fixed cost associated with stores, permitting the company to spend more on employee retention in the form of bonuses, commissions, hourly wage increases, and profit sharing. The company is also using funds to invest in more distribution centers—a strategy that is proving profitable and useful. This is an impressive track record for any business and especially for an industrial heavy retailer.

The competitive landscape is constantly evolving and there are numerous case studies about once great retailers who have fallen on hard times because of the rise in online retailers such as Amazon. We believe the company and its management team have succeeded partly because they have maintained focus on providing a great value for their clients and on the company’s ability to solve client needs. The culture the CEO presides over is commendable. For one, management is transparent and does not make excuses. No blaming weather or a holiday eliminating one selling day inside a quarter. Second, compensation is fair and is based largely on performance drivers. Third, they keep a low profile. Headquartered in the Midwest, management focuses its time on running the business as opposed to attending a myriad of investor conferences. Finally, the CEO and his team have a keen sense of capital allocation, using debt prudently and returning capital to shareholders in the forms of both cash dividends and share repurchases.

All considered, we ask a lot of our company management teams. We realize that exceptional and growing businesses with copious reinvestment opportunities are rare; and exceptional management teams might be rarer. Finding all three is a trifecta.

Everything we do at Compass has always been informed by certain cherished values, including the integrity of our long-term investment discipline and personnel. Our six-member investment team is responsible for the stock and bond disciplines used in managing client portfolios. We meet formally each week to review our holdings and propose new ideas. We also make sure all holdings conform to our stated discipline of investing in high-quality growth *stocks* with a proven track record and a strong management team and high-quality, intermediate-term individual *bonds* to ensure liquidity, income, and capital preservation. The Compass investment team collectively represents 146 years in the investment business. Now is the time when experience, sound investment discipline, and strong governance are seriously needed to determine which management teams can lead companies through the next market cycle.



FIRM

INVESTMENT COMMITTEE

Charles Kelley, CFA
 Leigh Niebuhr
 Mark Halverson
 Jay Jackley, CIMA
 Mark Vitelli, CFA
 Christopher Kelley, CFA, CAIA

AUM

\$1.3 billion

INCEPTION

1988

COMPASS PHILOSOPHY

As an independently-owned firm, Compass provides customized investment services to individuals, foundations/endowments, trusts, and retirement plans. Our objective is to preserve and enhance the real purchasing power of our clients' wealth over time.

Our clients value working directly with a seasoned and experienced team of portfolio managers to help them navigate their investments relating to:

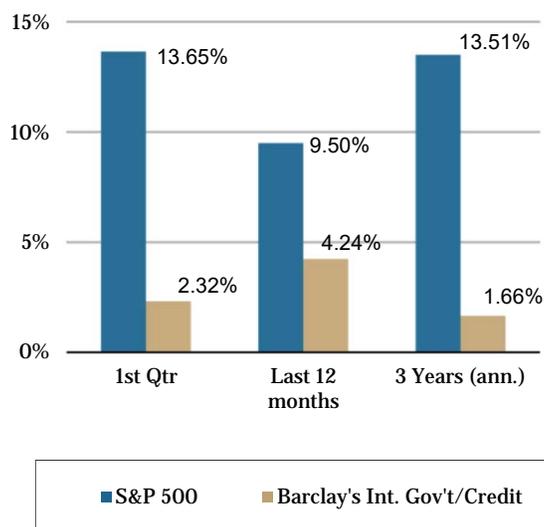
- Building a quality portfolio
- Divorce
- Retirement
- Inheritance
- Sale of a business
- Trust distribution

Our experienced team is always available to provide financial advice and review your financial assets

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MARKET INDICES

Total Return as of 3/31/19



For more information regarding our company or results, please contact us at investors@compasscap.com.