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*(These notes are to the best of my recollection and trusty ink pen. Discrepancies are due to my error in understanding & transcribing.)*

**Cara Denver Jacobsen, Nierenberg, D3 Family Funds– 10 Years in Micro Cap Land**

*Cara is a portfolio manager at the fund.*

* D3 Funds
  + Typically hold 8-12 stocks
  + Typically hold 6-7 years
  + Seek growth – not cigar butts
  + 3 year lockup
  + Micro caps are least efficient; they look for ‘*insight information’*
  + Pay attention to macro as well
* Micro Cap
  + Least Efficient capitalization
  + Historic small cap performance advantage
  + Liquidity as an investment style (Roger Ibbotson)
  + Ability to influence management and board
* Concentrated
  + Competitive advantage (know each idea better)
  + Diversification vs. Di-worsification (too many stocks dilute best ideas)
  + High Conviction (must be able to ‘move the needle’)
  + Ability to influence management and board (yes, intentionally here twice)
* General idea sources
  + Read…
  + Look at out of favor issues
  + Look at lots of issues
  + Look at multiple industry cycles
  + Look at lots of sources
    - Home health care 08’-09’, Tech 02’, Gold mining 04’, Mortgage/Housing 08’-09’
    - 2012-13’ potential ideas
      * Natural gas (more rational behavior), Solar, Western Europe, Tankers (scrap prices above ship values, order books low)
* Specific idea sources
  + 52 week lows
  + Daily price % decliners
  + Read a lot…
  + Screens
  + Spin outs
  + Busted IPO’s
  + 300 Limited partners and CEO’s of former invested companies
  + 13-F’s of smart people (issues may not be down long)
* Build high conviction
  + Pattern recognition in similar situations
  + Relative values of similar situations
  + Normalized operating and value metrics
  + Learn the specific industry
  + Dig for value creation opportunities
  + Look at multiple cycles for specific company
* Due diligence - in addition to typical items
  + Interview major shareholders
  + Focus on the people running the business – in a long term investment, they are your partners
* Ex. Multiplus (MPLU3.SA) Brazil
  + Loyalty Coalition Network – (TAM air frequent flier program)
  + Spin out from the airline business – Network effect (barrier to entry) in established relationship
  + Market share leader
  + Uses ‘points’ which are like float in insurance and have an expiration
  + Spun out 2-1/2 years ago & average ROE has been 37%
  + Cash flow machine
    - Compare to toll road
    - Negative working capital
    - 10 month float
    - Minimum fixed assets and little capex
  + Risk is poor use of cash
  + TAM merger could lead to additional business
  + Reasons for depressed prices
    - Spin out IPO so parent is controlling shareholder
    - Complicated accounting
    - Only 1 comparable (Aeroplan, Canada)
    - Potential TAM conflict of interest
* Q&A
  + Define micro-cap
    - Up to $1.5B if not followed
    - Average under $400M
  + How concentrated in a single name?
    - Up to 20%