**Value Investor Conference: Omaha, Nebraska – May 4th, 2012**

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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%