

# ACA Equity Selection Process

## Philosophy

We do NOT believe that stocks are created equal. Product cycles, management priorities, and ability to adapt all contribute to the relative success or failure of one business vs. another. How can we identify the Wal-Marts that can thrive, in an era where Sears & Kmart disappeared?

For us, Step One is filtering out those we'd prefer to avoid, through quantitative screening:



## Approach

We can then focus our research on a select number of what we believe to be extraordinary businesses. These companies meet specific standards related to the business itself, the people who manage it, and the discipline they demonstrate when it comes to capital allocation

Idea Generation	Fundamental Review	Portfolio Construction	Sell Discipline
<p><b>Investable Universe:</b></p> <ul style="list-style-type: none"> <li>-Names Within the Russell 3000 Index</li> <li>-Ample Liquidity</li> <li>-Prefer Companies that Pay a Dividend</li> </ul> <p><b>Qualitative Sources:</b></p> <ul style="list-style-type: none"> <li>-Prior Research</li> <li>-Mgmt Meetings</li> <li>-Industry Events</li> </ul>	<p>Through diligent research, we identify companies that meet what we see as rigorous investment criteria:</p> <ol style="list-style-type: none"> <li><b>1. Dividend Yield</b></li> <li><b>2. Higher Growth</b></li> <li><b>3. Higher Quality</b></li> <li><b>4. Reasonable Valuations</b></li> </ol>	<p>Concentrated, all cap, all sector, all industry portfolio</p> <p><b>HNW:</b> 15 holdings Expected turnover ~ 30%</p> <p><b>Investment Weightings and Limitations:</b></p> <ol style="list-style-type: none"> <li>1. ≤ 10% in one stock</li> <li>2. ≤ 20% in one industry</li> <li>3. ≤ 30% in one sector</li> </ol>	<p>As long as the holding exhibits a strong Y + G and Compounder's Score, plus strong fundamentals and a competitive moat, the fund can hold portfolio companies indefinitely</p>

# ACA Equity Selection Process

## What Makes This Process Different?

We created proprietary scoring systems that measure a company's ability to compound capital over long periods of time, with the goal of outperforming their respective index.

### ➤ Dividend Yield

#### The Known: Dividend Yield

Paying dividends imposes financial discipline on use of capital, as you cannot fake cash. Dividends to shareholders reduce the amount of capital that would otherwise be invested in low-return projects or wasted by management teams.

#### + The Unknown: Growth Rate

Deep fundamental research focuses on two pivotal items:

1. The ability of a company to sustainably generate sales, EBITDA, earnings, cash flow, and dividend growth.
2. Sustainability of business model and potential risks.

#### = Total Return

To be considered for our portfolio, we target a doubledigit Y + G return threshold.

### ➤ The Compounder's Score

#### Business Growth

Growth in Sales  
Growth in EBIT  
Growth in Margins  
Growth in Earnings  
Growth in Dividends  
Extensive Reinvestment Opps



#### Valuation

Price-to-Earnings  
Dividend Yield  
EV/EBITDA  
Price-to-Book



#### Profitability

Enduring, Predictable  
High ROE & FCF  
Strong ROIC  
Strong Balance Sheets  
Down Mkt Performance



#### Momentum

Trading above 50 Day Avg  
Proximity to 52 week Highs  
12 Mth, 6 Mth Relative Performance

= **Compounder's Score** (Highest = **12**, Lowest = **1**)

# ACA Equity Selection Process

## Disclosures

Past performance is not indicative of future results. This material is not financial advice or an offer to sell any product. The information contained herein should not be considered a recommendation to purchase or sell any particular security. Forward-looking statements cannot be guaranteed.

This document offers generalized research, not personalized investment advice. It is for informational purposes only and does not constitute a complete description of our investment services or performance. Nothing in this document should be interpreted to state or imply that past results are an indication of future investment returns. All investments involve risk and unless otherwise stated, are not guaranteed. Be sure to consult with an investment and tax professional before implementing any investment strategy.

Advisory services offered through Aptus Capital Advisors, LLC, a Registered Investment Advisor (RIA) registered with the Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about the advisor, and its investment strategies and objectives, is included in the firm's Form ADV Part 2, which can be obtained, at no charge, by calling (251) 517-7198. Aptus Capital Advisors, LLC is headquartered in Fairhope, Alabama. ACA-20-126.