



## Arcataur Capital Management LLC

A Registered Investment Advisor

High Quality Investment Management  
For Individuals and Institutions

### ARCATAUR LARGE CAPITALIZATION EQUITY PORTFOLIO

The **Arcataur Large Capitalization Equity Portfolio** provides investors a separately managed account consisting of high quality, blue chip stocks which offer growth opportunities at a reasonable price. We believe that our disciplined, top-down approach, combined with company specific fundamental analysis, will provide above average long-term growth, while at the same time controlling for portfolio risk. The investment objective is to consistently outperform the large capitalization benchmarks on a total return basis.

#### Key Portfolio Characteristics:

- High Quality, Blue Chip Stocks with Financial Strength
- Diversified Portfolio Across Sectors to Minimize Risk
- Top Down Approach, Combined with Fundamental Analysis Focused on Market Share Leaders with a Competitive Advantage
- Valuation Framework to Pay a Reasonable Price
- Portfolio construction utilizes the “65/15” principle

Our strategy for the **Arcataur Large Capitalization Equity Portfolio** is to maximize expected return while reducing risk by constructing diversified portfolios with exposure to most major industry sectors. We invest in high quality companies that have sustainable growth to compound returns over long periods of time. Most companies will have market capitalization in excess of \$10 billion.

Our equity investment process begins with a top-down approach, where we start with a macroeconomic analysis, including a focus on all sectors and industries, to emphasize areas that we expect to benefit from the current and prospective economic environment. We then perform fundamental equity analysis on individual companies, emphasizing their competitive positions within their respective industries. We focus on leaders or emerging leaders in these industries to lever the portfolio for out-performance versus broader market benchmarks. Dominant market share, strong financial position, unique products or services, low cost operations, significant free cash flow and appropriate stock valuations are critical variables we look for in the companies in which we invest. Financial and operating quality are then considered to provide a greater margin of safety and stability to the portfolio. Valuation is evaluated to avoid overpaying for the company. Once we reach our investment conclusion, technical analysis is used for optimal timing and pricing decisions.

Our strategy then looks at ways to maximize expected return through constructing diversified portfolios utilizing the “65/15” principle. On average, this portfolio could hold 65 stocks; however, the largest 15 could account for as much as 45% of the portfolio’s market value. The direct stock portfolios may be augmented with large capitalization index based equity exchange traded funds (ETFs) for liquidity or for lower dollar value accounts to achieve proper diversification when needed.



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#### Equity Investment Process for the Arcataur Large Capitalization Equity Portfolio

##### Step One: Macro Assessment of the Economy

Our research starts with a top-down strategy to assess the current economic environment and stage of the business cycle. Based on this analysis, sectors will be over-weighted, equal-weighted or under-weighted to achieve optimal sector exposure. We will have representation in nearly all eleven sectors that make up the universe of the economy and the stock market to diversify risk. To further minimize risk, we constrain sector weights to no more than 2.5 times the benchmark weight. Macroeconomic data and specific industry data are monitored regularly to keep sector weights positioned correctly.

##### Step Two: Fundamental Analysis of Companies

The heart of Arcataur's fundamental equity analysis focuses on the competitive position of the company within its industry. We search for companies that have demonstrated franchise value that will provide compound returns over multiple years, as we are long term investors and don't trade in and out for short-term returns. The franchise value might arise from a technological edge relative to competitors, high barriers to entry for new companies, or products with very few substitutes. We then dive deeper to focus on key factors of financial strength such as revenue diversity and growth, cost structures and margins, profitability, capital intensity and cash flow generation, financial strength, debt leverage and cash reserves, as well as management execution. This research identifies the leaders or emerging leaders in each industry to lever the portfolio for out-performance versus broad market benchmarks. We then evaluate absolute and relative valuation levels. In short, high market share, robust financial position, unique products/services, low cost operations, significant free cash flow and appropriate stock valuations are critical variables we look for.

##### Step Three: Portfolio Construction

After deciding on sector weights and performing individual company analysis, we build our portfolios utilizing the "65/15" principle. On average, we will hold 65 stocks (55 to 75); however, the largest 15 could account for as much as 45% of the portfolio's market value.

As we are long-term investors, new investment ideas and changes in the relative size of an individual stock held account for the majority of the trading within the portfolio. Key investment factors are monitored closely and re-evaluated constantly to optimize the portfolio structure.

**Asset Class:**  
Domestic Equity

**Investment Style:**  
Large Cap Core

**Benchmarks:**  
Lipper LC Core  
DJIA  
S&P 500  
S&P 100

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