Dakota Summit Fund

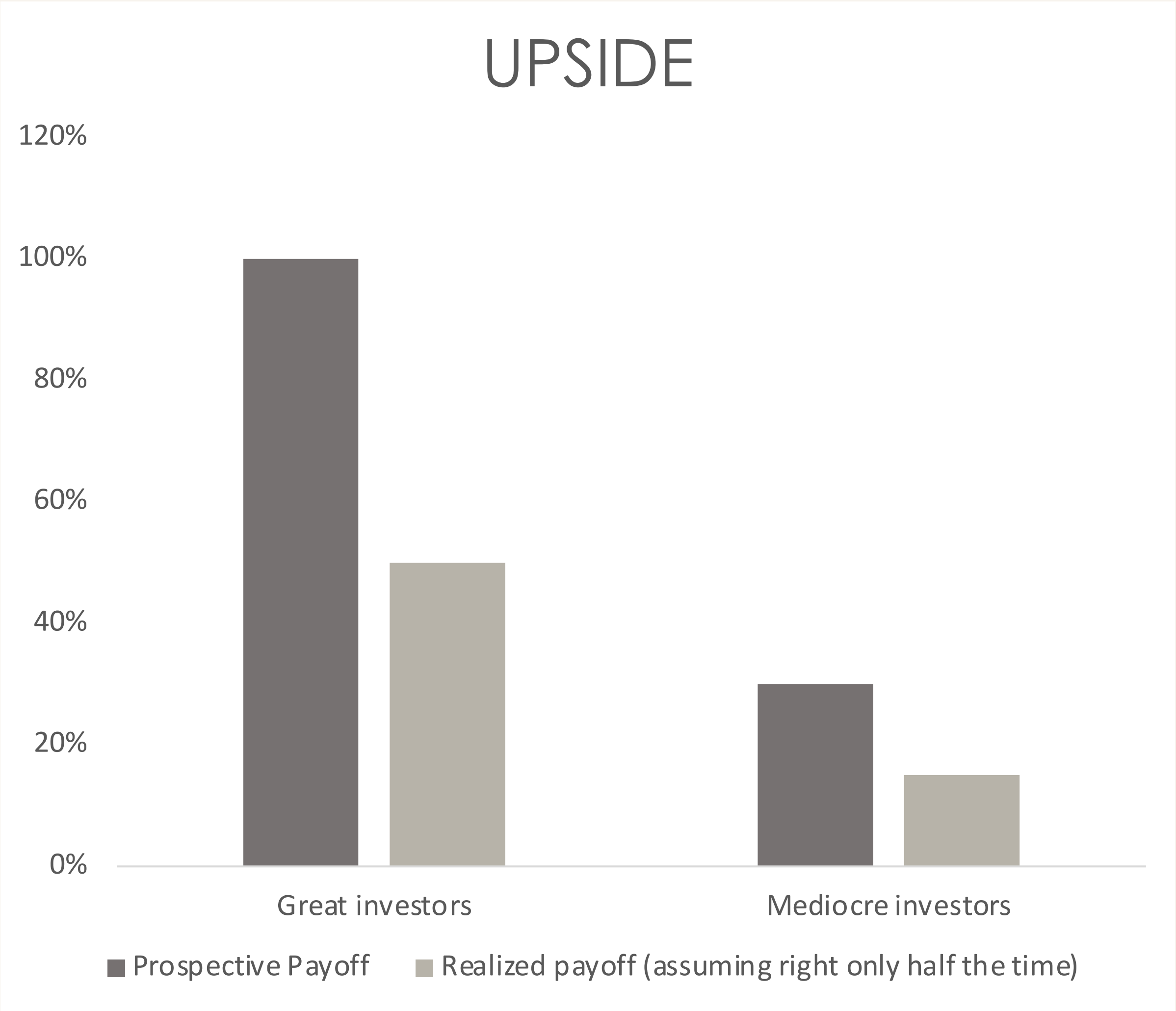
The fundamental question:

- What, if anything, works in investing across the ages?
- Is there any enduring truth?
- Or is investing like time or war—in that every strategy succumbs to either entropy or the evolving tactics of a thinking opponent?

- To answer this question, we created a database of the greatest investors in history.
- We studied their strategies and investments.
- The results changed our lives as investors. Great investors are far more similar than not.

- <u>#1 difference</u>: Great investors focus on investments with <u>large payoffs</u>. 50-100%+ upside.

- By contrast, most professionals buy stocks with less than 30% upside, enshrining mediocrity.



Targeting high payoffs is necessary to overcome the fact you won't always be right.

- 2nd difference: Great investors tended to bet not on change but on character (i.e. reversion to a company's or industry's historical nature).
- Generally wanted stronger higher-percentage firms, not weaker low-percentage firms.
- The greats bet on the strength of the tree, not the direction of the wind.

- 3rd difference: 32% of the greats were deep value investors.
- Deep value is about buying ultra-cheap things trading at extremes. Means taking humiliation risk.
- Only 1-2% of assets are managed by deep value investors.

GREAT DEEP VALUE INVESTMENTS

INVESTOR	INVESTMENT	P/E	RETURN
CHARLIE MUNGER	TENNECO (2001)	1	15x
WARREN BUFFETT	HY BONDS, KOREAN STOCKS	3	3x
NOMAD	SIAM CEMENT (1997)	3	10x
CHARLIE MUNGER	BELRIDGE OIL (1970)	1	30x
CHANDLER BROS	JAPANESE BANKS (2002)	2	2-4x

Inspired by our findings, we created a global value strategy based on principles that have worked across different times and geographies.

1. <u>High-payoff</u>. If the stakes aren't high, don't play the game. Want 2-3x upside.

2. <u>Hannibal Lecter</u>. *"Of each thing, ask: What is its nature?"* Time reveals a business's nature. Bet with that nature, not against it.

3. <u>Market power</u>. Prefer oligopolies, duopolies, things with privileged place in the ecosystem. Kangaroos have easier lives than lions.

4. <u>Chinatown</u>. *"Why are you doing it?" "The future, Mr. Gittes, the future."* As investors, *we* are competing for a piece of the future. The best assets are those that can produce <u>decades</u> of free cash flow.

"Wait for that wisest of all counselors: time."

—Pericles

- Our competitive advantage: unlike most funds, our strategy is time-tested.
- Why study history? To find what has worked over and over again in the past.
- Most investors are locked in the present. They're making projections based on low-percentage noise.
- They don't see the broader reality where the past connects with the future. <u>Our fund is a way to go long this reality.</u>

- If a strategy focuses on firms growing 30% a year, how does an allocator know that's a good thing?
- If high-growth stocks trading at 10x sales have historically underperformed, what makes the allocator believe this time is different?

STRATEGIES THAT INSPIRED OURS


- **#1: Chandler brothers**
  - 37% returns over 20 years.
  - The two greatest deep value investors in history. Specialized in buying a country's crown jewel assets at fire-sale prices, i.e. 3x earnings or less.
  - Bought UFJ and Japanese megabanks at 1.8x normalized earnings.
  - Bought SK corp, Korean oil refiner, at 1x earnings.


- **#2: Nick sleep and Qais Zakaria**
  - Returned 18.4% after fees for 13 years.
  - Combined ultra deep value investing with Munger-style investing in compounders.
  - The result: a portfolio that combined Costco with Nigerian cement companies.

- "Manage your clients' money as though it was your parents' money."

- That statement touches something deep because capital means our lives can be about more than subsistence.

- Our firm's success will depend on how much we can embody that principle.

FOUNDER + PORTFOLIO MANAGER

Scott Reardon is an author and value investor. Prior to founding Dakota Funds, he was the head analyst at a holding company pursuing a Berkshire/Leucadia strategy. Prior to that, he worked as a research assistant at Columbia Business School in the Value Investing Program.

Before turning to investing, Scott was an attorney at Simpson Thacher & Bartlett. He's a cum laude graduate of Northwestern Law and has been admitted to the California and New York bar.

His white paper "Stewart's Bridge to Huston's Gateway" is the only systematic study of the world's greatest investors and what they did that few others do. His first novel, *The Prometheus Man*, was published by Little Brown in 2017. The second book in the series was published in 2020.

Fund	Dakota Summit Fund LP
Fund GP	Dakon Capital LLC
Management fee	1%
Incentive allocation	20%
Hurdle	6%
Fund size	Soft close at $300MM
Lockup	None
Redemptions	Quarterly
Highwater mark	Yes
Minimum investment	$1,000,000

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