



DURIG CAPITAL, *INC.*

FIXED INCOME 1 (FXI)

A BRIEF OVERVIEW OF *INDIVIDUAL* INVESTMENT IN FXI

Disclaimer

Information in this presentation is provided for informational purposes only and is not offered as advice with respect to any particular security or related financial instrument. This information should not be used as a basis for making an investment decision and must not be treated as a substitute for seeking advice from a licensed professional. The suitability of a given investment for a particular investor depends on a number of factors, each of which should be considered carefully. Such factors include, but are not limited to, the risk associated with the investment, the nature of current market conditions, and the investor's objectives, personal needs, and specific circumstances. This is neither a solicitation to buy nor an offer to sell to any person. The content within this presentation an informational overview of retail investing and our segregated (individual) accounts in Fixed Income 1 (FX1), Durig Capital's, fixed-income portfolio.

Agenda

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- ❖ Key Staff & Bios
- ❖ Organizational Chart
- ❖ Fixed Income 1 (FX1): How it works
- ❖ The U.S. Bond Market
- ❖ Credit Rating Agencies
- ❖ Inefficiencies of the Bond Market

- ❖ Fixed Income 1 (FX1)
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 - Risk Assessment & Mitigation
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Third Party Support Services

Auditing Firm: Ashland Partners & Co., LLP

Prime Brokerage Firm: TD Ameritrade

Legal Counsel: Justin Stark



"BEST FOR FIDUCIARY SERVICES"
(ACQUISITION INTERNATIONAL,
2017)



50 Years of Combined, "Boots on the Ground" Investment Experience

Randy Durig

- ❖ CEO, Owner of Durig Capital, Inc., Portfolio Manager, (2001- Present)
- ❖ Senior VP, Charter Investment Group/Sutro & Co. (Now RBC) (1990-2001)
- ❖ CEO, CCO, Manager of the Distressed Debt 1 Hedge Fund (2015-Present)
 - Distressed Debt 1 has returned **199.16%** since inception on 10-1-15
- ❖ Portfolio Manager, Fixed Income 2 (FX2), (2011-Present)
- ❖ While managing at Sutro & Co., Randy Durig produced over **500%** (annualized at over **80%**) before starting his own advisory firm (2)
- ❖ Owns, founded, and operates numerous businesses across various industries, with *extensive experience in operational turnarounds*
- ❖ Mr. Durig has found his niche, by leveraging both his operational background and investment management experience to bring Durig Capital, Inc. to be among the top of his peers in Fixed-Income

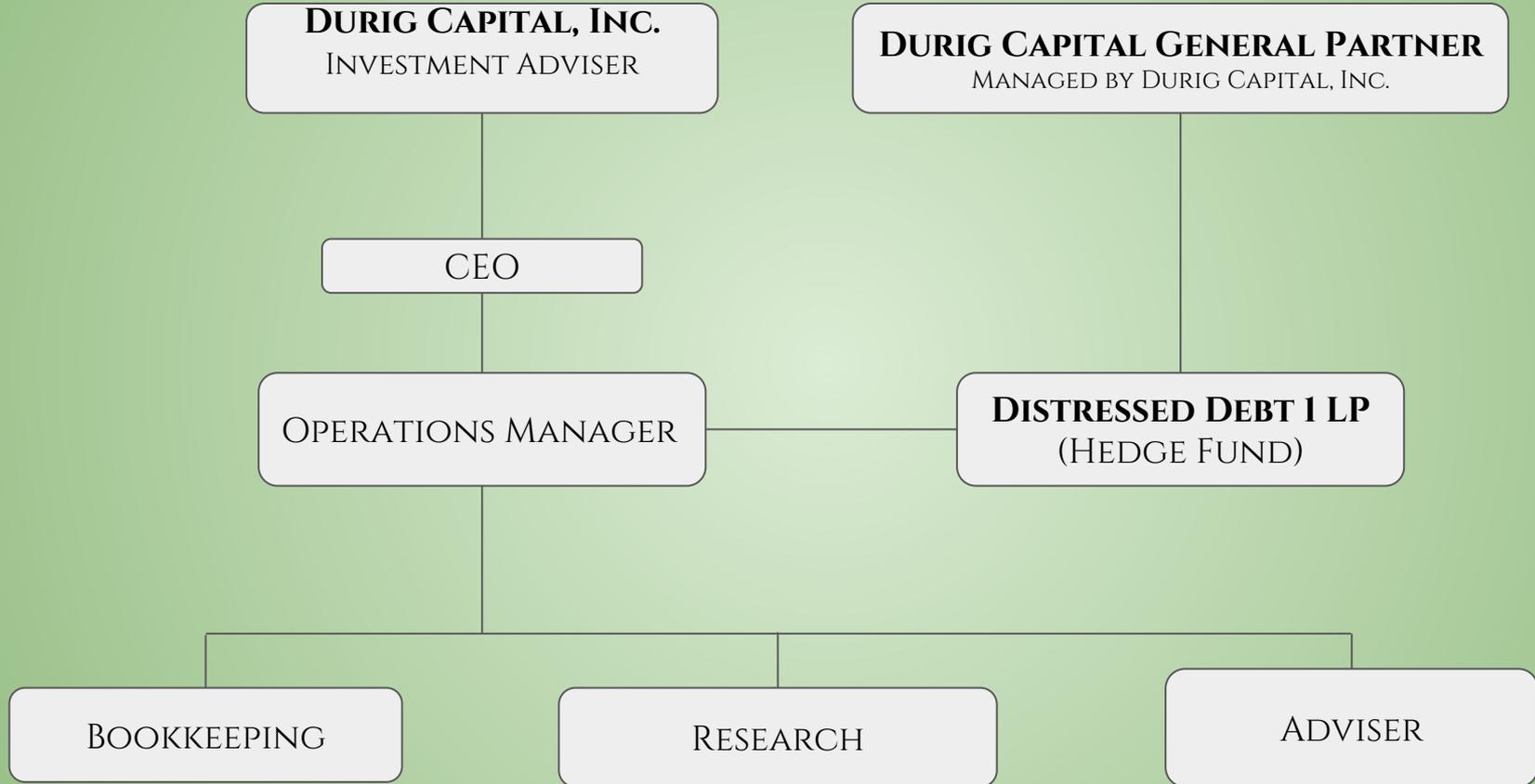
Hugh Smithers

- ❖ Trader, Fixed Income 2 (FX2) (2011-Present)
- ❖ Fund Administrator - Distressed Debt 1 (2015-Present)
- ❖ FINRA Series 65 Licensed
- ❖ CEO, Precision Flooring Services (1985-2000)
- ❖ Sales Manager, Lithia Auto Group (2000-2005)
- ❖ Operations Manager, Beaverton Wood Floors (2009-2010)
- ❖ Many years of hands-on experience owning and operating businesses
- ❖ St. Lawrence University - Theology Degree

Schuyler Wong

- ❖ Fixed Income 1 (FX1) Consultant, (June 2017-Present)
- ❖ Adviser, Durig Capital, (April 2017-Present)
- ❖ Student Consultant, Association of Home Businesses, (1/2017-3/2017)
- ❖ Portland State University: B.S. Business Administration-Finance
- ❖ Portland Community College: Associate of Science
- ❖ FINRA Series 65 Licensed

DURIG CAPITAL'S ORGANIZATIONAL CHART



“Always putting your interests first”

- ❖ We are a fiduciary first and foremost, providing our Advisory clients with a personalized fiduciary service that is very low-cost.
- ❖ The information contained in this presentation is an informative overview of our Non-Discretionary Fixed-Income portfolio, [Fixed Income 1 \(FX1\)](#)
- ❖ The current majority of our accounts are held under the custody of TD Ameritrade, one of our primary Broker/Dealers

How FX1 works

- 1) Complete the Durig Advisory Agreement
 - 2) Select your account type at our Custodian Firm, TD Ameritrade & complete application
 - a) If unsure of which account type is needed, our FX1 consultant will assist you
 - 3) Sign up to receive our weekly bond recommendations
 - a) Clients have an a-la-carte selection of our weekly bond recommendations
 - 4) Fund the account
 - a) Our FX1 Consultant will walk you through the steps needed to get funded
 - 5) Work with our FX1 Consultant to help you select bonds for investment
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The U.S. Bond Market

- ❖ The primary function of the bond market is to provide long-term funding for companies' capital expenditures (16)
- ❖ Bonds are Debt Instruments which function as a loan in which the issuer (company) agrees to pay the bondholder the principal loan amount at a set maturity, usually paying a fixed or variable rate of interest on the stated principal until maturity
 - Common bond types included: US Treasuries, Municipals, Corporates & High-Yield, among others
- ❖ A 2011 study by Mckinsey Global Institute places a market cap on *global debt outstanding* of approximately \$93 trillion (double the capitalization of the equity markets at the time) (7) (10)
- ❖ A 2017 SIFMA analysis estimates total outstanding debt in the US of nearly \$40 trillion, of which between \$9-13 trillion is considered corporate debt (1) (8)

Credit Rating Agencies

- ❖ Much of the activity in this market is indirectly influenced by three credit agencies:
 - Moody's
 - S&P
 - Fitch
- ❖ These rating agencies evaluate the credit arrangements & creditworthiness of companies and assign a ranking based on these, among other considerations and analysis
- ❖ The majority of investors and financial institutions consider these ratings prior to investment as an indication of the quality of the asset or debt-instrument being considered
- ❖ Fitch claims that 90% of the world relies on their ratings to govern business decisions

Inefficiencies of The U.S. Bond Market

- ❖ Most ratings agencies' policy is to maintain a review Period of 12 months (*Standard & Poor's*) (4)
 - Mid & Small-cap firms often are overlooked and receive less frequent credit reviews due to a broken pay model in which issuers pay substantially to be given a rating (12)
 - "The quality of investment-grade securities can deteriorate over time. With lower-rated securities, the opposite is often true." - *Michael milken* (15)
- ❖ Many large financial institutions are mandated to liquidate positions once the underlying security's rating has been downgraded beyond a certain threshold, often perpetuated by "bandwagon" individual investors

Equity Market Efficiency vs. Bond Market Inefficiency

- ❖ In today's Equity markets, most investment managers are unable to exceed the returns of the S&P 500 TR Index
 - Over the last 15 years, the S&P 500 TR outperformed the returns of:
 - Large-cap Fund Managers 92.2% of the time (18)
 - Mid-cap Fund Managers 95.4% of the time (18)
 - Small-cap Fund Managers 93.2% of the time (18)
- ❖ Our belief is that this is due to the ever-growing efficiency of the equity markets
- ❖ A recent study (19) of active bond fund managers revealed that over the past 5 years, these active bond fund categories have outperformed the returns of their passive peers:
 - Short-Term Bonds - 60% of the time (19)
 - Intermediate-Term Bonds - 84% of the time (19)
 - High-Yield Bonds - 81% of the time (19)
- ❖ We seek to capture opportunities in the debt markets, which lack the same efficiency of equity markets

Ideology

- ❖ It is our belief that while the stock markets are very efficient, the bond markets are **not**
- ❖ Debt Markets are susceptible to seasonality and cyclical turns (21)
- ❖ Many bondholders employ “buy & hold” strategies, leading to a lack of trading activity & less efficient dissemination of information
- ❖ Due to the inefficiencies present, bond investing is thought to be more complex to understand to the average investor than stock investing
 - Often, individual investors are unable to perform well in fixed-income without some guidance
- ❖ Rating agencies tend to lag behind current market trends due to infrequent credit reviews, and often give more favorable treatment to large cap, established firms (4)

FX₁ Structural Advantages

- ❖ Low average cost + Higher Returns = Higher Net Returns to Clients
 - ❖ Professional Management & Personalized Service
 - ❖ Access to all Durig Capital bond recommendations
 - ❖ Non-Discretionary Management means YOU are the decision maker in the account
 - Requires client authorization prior to any account activity
 - Ideal for those **wishing to take an active role in their investment(s)**
 - ❖ Segregated accounts; no pooled funding
 - ❖ The tax implications of the account match that of the investor
 - ❖ Clients may access their account online, allowing for 3rd party validation
 - TD Ameritrade offers comprehensive, 24/7 account access online to their custodial clients
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Risk Assessment

- ❖ Substantial protection against risk in the long-term is to buy assets below their intrinsic value (we target undervalued companies) or those trading well below PAR value, allowing for much greater upside reward potential (20)
- ❖ This pricing scenario often comes from the aftermath of a “Black Swan Events”, cyclical downturns or crashes, oversupply of products, services, volatile interest rates, etc.
 - In 1999, the crash was the Internet- Real Estate & Oil were not significantly impacted
 - Crash of 2008 - Real Estate & Banking markets crash- Internet businesses & Oil firms were not significantly impacted
 - 2016 - The Oil markets crash - Internet businesses & Real Estate markets were not significantly impacted
- ❖ These industry focused sell-offs often create unbalanced pricing scenarios in which assets are carried at a value substantially below their intrinsic values
- ❖ Most flee such events, but we look at the company's “vitals” :
 - Long-Term Businesses with significant barriers to entry
 - Improved Business
 - Positive Free Cash Flow
 - Improved Human Capital
 - “Any analysis of capital structure should recognize that most balance sheets are dramatically inaccurate because.. they fail to include the value of human capital.” - *Michael Milken on Human Capital* (15)

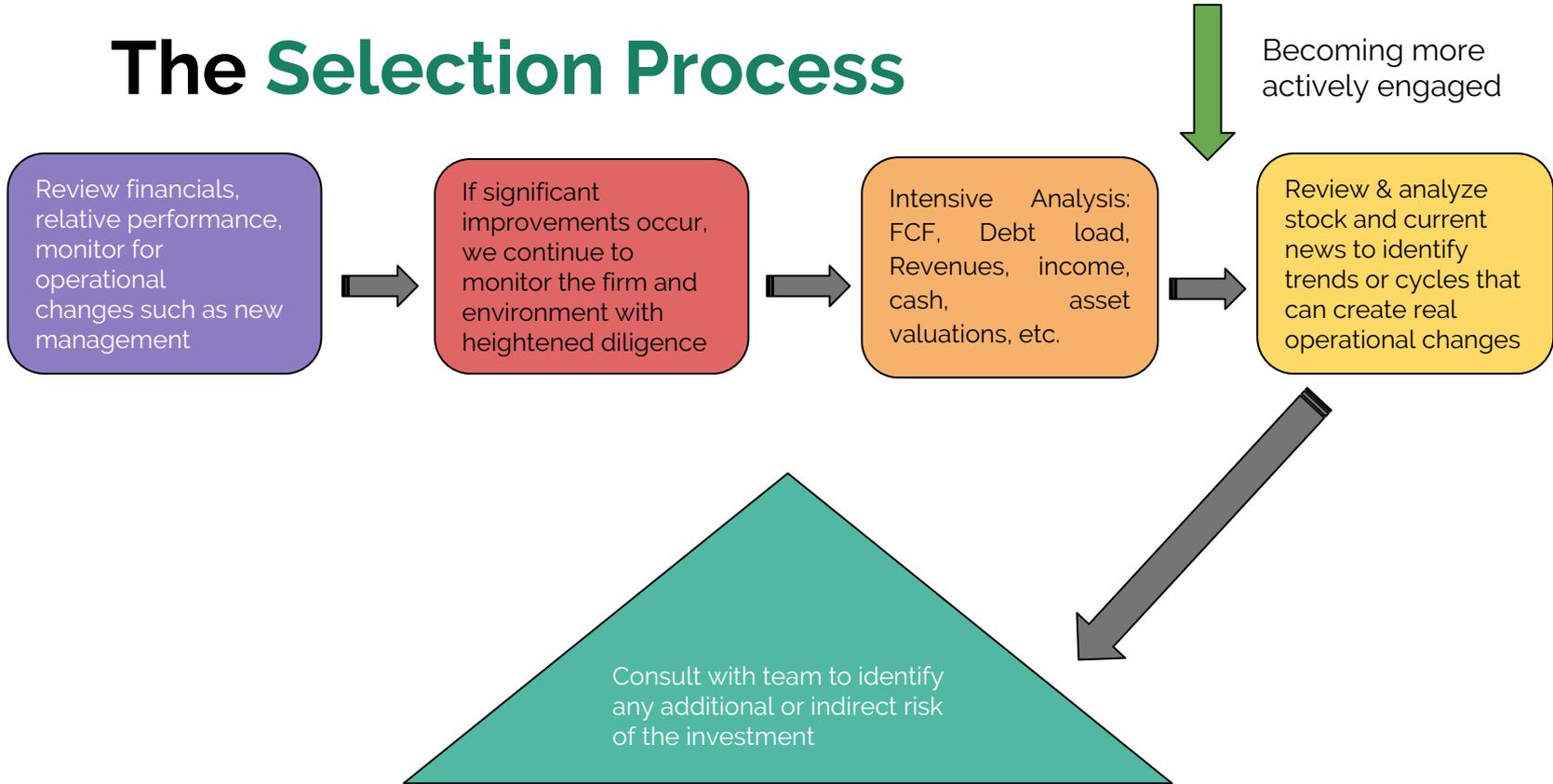
Portfolio Diversification & Risk Mitigation

- ❖ We methodically analyze the overall impact to risk & reward in the account for each security we mark for investment, in line with Modern Portfolio Theory (14) (16)
 - We monitor a company's situation/fundamentals for months, sometimes years, before determining if the investment is cohesive with the risk/reward profile of the overall portfolio
- ❖ *A car with dents will sell cheap, it doesn't mean it can't be fixed*
 - By doing our own in-house research and benchmarking against the actions of the rating agencies, we can validate that the rating agencies are not acting in a timely manner
 - By looking at the company's quarter, we can affirm our beliefs and capture opportunities or act on inefficiencies much sooner than the rating agencies, who typically review once a year (4)
- ❖ We also seek to Lower Portfolio Risk by:
 - Diversification among issuers and industries
 - Investing small amounts in each recommendation adds significant diversification benefits
 - Producing and maintaining a High Alpha (return generated by investment manager that exceeds the expected return anticipated by Beta)

Our Focus

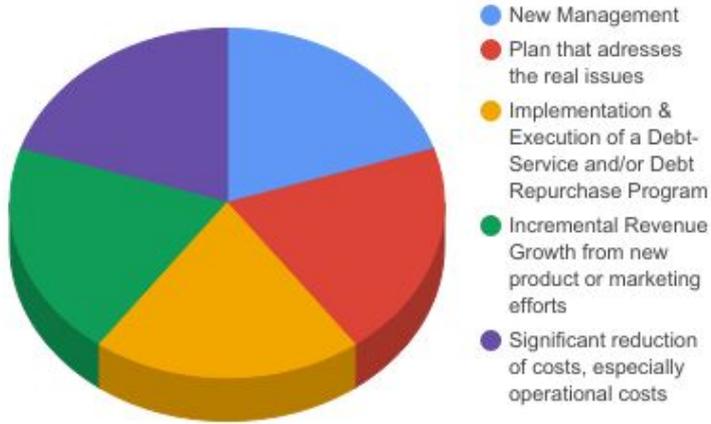
- ❖ Our primary goal is to provide consistently high returns on fixed income securities through our portfolio of discounted bond issues
- ❖ Typically, we focus acquisition on discounted issues that trade at a fraction of PAR value with *improving fundamentals*, often targeting a full recovery
- ❖ Once a specific issue has been marked for investment, we monitor the firm's activity, looking for improving fundamentals such as debt service and repurchase, improving coverage ratios, and positive free cash flows
- ❖ We like to buy as soon as recovery is probable, positioning us for acquisition prior to any significant appreciation that may take place

The Selection Process



The “turnaround”

Key Elements of a Turnaround



❖ Through our experience we have found several factors present in nearly every “turnaround”

Key Features of an FX₁ Account

- ❖ No pooled investments; as a retail client with a **segregated** account you are in a much cleaner investment environment (*the tax implications of the investor match that of the account*)
 - Think of this as going for a swim in your own private pool as opposed to swimming in a public pool
- ❖ Well-diversified depending on the account/investment size
- ❖ We seek investment in firms demonstrating ample interest coverage on debt outstanding
- ❖ We focus investment on firms showing improving fundamentals in their core business such as:
 - Positive free cash flow, improved human capital, creating barriers to entry with long-term business model
- ❖ May be appropriate for Income-Seeking Investors who can accept moderate levels of risk and also seek opportunities for growth of principal
- ❖ New Bond Picks emailed every week
 - Clients indicate to us which issues they would like to invest in

Fx1 works best when..

- ❖ Clients remain open to all industries
 - The more client filters or preferences we consider for a client, the fewer available options for investment
- ❖ Clients invest small amounts in each recommendation
 - We find that historically, clients who invest small amounts in each recommendation see higher returns **
 - We adjust the amount recommended based on each client's unique situation
- ❖ Let us do the buying; we can probably get it at a lower cost
- ❖ FX1 is modelled after our discretionarily managed fixed-income portfolio, FX2
 - Because of this, we find that the closer a client can model our Fx2 portfolio, the closer the performance is to that of FX2
 - Historically, we have found that non-active Fx1 accounts underperform Fx2 accounts by nearly 50% *

Summary

- ❖ Lower Cost + Higher Returns = Higher Net Returns for our Clients
 - We are lower in cost than the average fiduciary at only 0.6% (annually)
- ❖ Our team leverages over 50 years of professional investment experience
 - We offer professional investment management with an emphasis on personalized service
- ❖ Segregated Accounts; no pooled funding

Investing in **FX1**

- ❖ No Minimum Investment
- ❖ Non-Discretionary Management
 - Low Annual fee of 0.6%
- ❖ No minimum investment period
- ❖ Accounts are Custodied at TD Ameritrade

Thank you

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Registered Investment Advisor

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