RATIONAL
Investment
Methodology

Rational Investment Methodology [RIM] *modus operandi*

Modus Operandi: a particular way or method of doing something, especially one that is characteristic or well-established

PORTFOLIO CONSTRUCTION AND EXPOSURE

How RIM does it	How it's usually done elsewhere
Three different constructs, with significant variances in net/gross exposure: long-short, long-only, and long-aggressive. The allocation between strategies is seamless. All strategies, each built with clear and strict rules, use the same group of 60+ companies as possible long/short positions.	Usually, funds have one strategy. If more than one is offered, it's generally run on different partnerships, with a complicated process to transfer AUM between them. Portfolio construction is done with loose rules, if any. Not uncommon for significant positions taken on companies that are new to the PM. Exposure changes based on PM's gut feel.

FUNDAMENTAL ANALYSIS

How RIM does it	How it's usually done elsewhere
Complete and complex analyses performed for 60+ US-focused companies by the same analyst, with more than two decades of business assessment experience. The group of companies followed is quasi-static, allowing for the accumulation of relevant knowledge.	Models developed ad hoc by young analysts on a rolling basis of companies/industries/countries, preventing any significant accumulation of knowledge. Ideas are pitched to a PM that, not being familiar with the company/industry/country, can't spot logical inconsistencies.

TRADING COSTS

How RIM does it	How it's usually done elsewhere
Electronic brokers (like Interactive Brokers) offer low-cost trades, even for a small account. As an example, a $250K account using RIM's long-short strategy (which demands more trading activity than the other constructs) had less than five bps in trading costs during 2019	Big hedged funds usually can achieve low trading costs. However, minimum trading fees can add up for smaller funds: when running close to $100 million with the same methodology as used by RIM today, but trading using traditional brokerage houses (JP Morgan, Goldman, Jefferies), Rational [hedge-fund] had much higher trading costs vs. RIM today.

FEES AND OPERATIONAL COSTS

How RIM does it	How it's usually done elsewhere
Managed accounts don't need administrators nor auditors. Therefore, operational costs are <u>zero</u>. RIM charges a 1% management fee and a 10% performance fee, with a high watermark that is transferable between strategies.	Not uncommon for administration, auditing, and other costs to achieve 1.0%-1.5% annually. Also, it is still common for hedge-funds to charge a 2% management fee and 20% performance fee, especially for funds with "good track record" (which are most times statistically insignificant).

TRANSPARENCY AND KEY-PERSON(S) RISK

How RIM does it	How it's usually done elsewhere
Clients can directly access their account(s) at any time – there is full transparency on positions and costs. By literally clicking a button on their account's web-interface / App, clients can convert all positions to cash if uncomfortable with RIM's approach or if anything happens to key-person(s).	The need for costly administration/auditing services is because a hedge-fund is usually a company outside the US, that controls the client's money. NAVs are delivered as one gain/loss figure: clients have to trust that the PM will tell the truth regarding what were the real sources of gains/losses. Impossible to know what happens with resources if key-person(s) becomes unavailable.

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