CHADDD GARCIA ON 7 INVESTING PODCAST

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Matthew Cochrane: Greetings, fellow investors, I'm Matthew Cochrane, a lead advisor at Seven Investing where it is our mission to empower you to invest in your future. We do that by providing monthly stock recommendations to our premium members and educational content that is freely available to everyone. Listeners Today I am very excited to introduce Chadd Garcia, portfolio Manager of Ave Maria Focused Fund. He is a CFA charterholder and has an MBA degree from Harvard. So going into this conversation, needless to say, we all know who the smartest person is. I've had the absolute pleasure of meeting Chadd in person and picking his brain. I love his investment philosophy and I think listeners today are in for a special treat. So, let's get this party started. Chadd, welcome to the show.

Chadd Garcia: Good morning. It's great to be here.

Matthew Cochrane: Well, Chadd, let's just start maybe real brief. Just give us a brief rundown of how you got started in investing in what you do at Ave Maria.

Chadd Garcia: Sure, sure. Well, out of undergrad, I took a job running some businesses for Cargill, which is at the time was the largest privately held company in the country. And it's focused on agribusiness. And the program I was in was a program where every year you got a promotion, they moved you to another business that was rotational. It was modeled after General Electric's General Management development program. And it was interesting in the sense that on one hand I was learning how to run a business, but a lot of the raw materials that were used for commodities that we could trade in and out of. And so, it's also like I had a trading desk and I spent part of the day looking for arbitrage opportunities. The third location I was at was a turnaround, and so I got made a full manager after two years of training and they threw me into a business that needed to be

turned around and it was losing money. When I got there, it was making money when I left, but I knew that if I had a little bit more free rein to run the business as an owner, I could have created a lot more value for the shareholders, which was the Cargill family.

Chadd Garcia: And that got me interested in finance and in private equity and looking for opportunities to fix companies that may have some potential in them. And that drove me to go to business school and from business school I spent a couple of years in. Investment banking to learn how to acquire and finance and sell businesses. You already had the oversight part. With my experiences at Cargill, and that led me to my first job in investing, which was in private equity, where I focused a bit on turnarounds. And that led me to a family office in Naples, Florida, where I made investments off the family's balance sheet and then ultimately made my way into the public markets. I worked for a little bit with Lew Simpson and got exposed to more of the of the quality type investing as opposed to the turnaround investing that I was used to in a controlled environment and kind of stayed in that realm for the most part since then.

Matthew Cochrane: Gotcha. So why don't you tell us? I already mentioned you're the portfolio manager at Ave Maria. What is the Ave Maria Focused Fund investment strategy?

Chadd Garcia: Well, the objective is, is capital appreciation. We can invest in companies of all sizes and geographies. And what I'm looking for is to. Invest in capital companies with durable forecast, stable and growing earnings. And so, I want to invest in a company that's going to compound capital at 15% over a long period of time. And so that in my mind is a compound rate of 15% for five years. That's a that's a double. So that would be the minimum that I'm looking for. A lot of the companies that I buy tend to be on the on the smaller size or are undergoing a transformation in their business. And because of that, I think they can compound it at a greater rate than that 15% threshold.

Matthew Cochrane: So, you have told me that there's two investment situations you particularly like, and you almost just started hinting at one. Like, but maybe you could share what those are and maybe give us a couple examples of each.

Chadd Garcia: Sure. Well, one of the examples I like is when there's a change in the business model. And so, if you look at the current portfolio of the Focused Fund. We own APi Group. That company specializes in buying acquiring companies in their industry, which is safety services inspections. And they transform the business model by. Focusing the model on service first. So having a recurring amount of revenues as opposed to the rest of the industry, which focuses on going out and landing large building projects. They'll do building projects, but they like to be invited into it from clients that they have an established relationship with, and that makes their revenue stream much more durable and passable and their margins much higher than a business that's focused on going out and bidding on new contracts. We have a handful of software companies in the focus fund, and software companies are going from a license model to a SAS model, which again makes the earnings much more flexible and durable. We have a commodity producer reading planes, which was a historically produced ethanol. My cargo experience taught me a lot about animal nutrition, and one of the byproducts of ethanol production is dry distiller's grains. Green Plains has a new manufacturing process that's going to increase the protein value of that byproduct. And that byproduct is ultimately going to be the primary driver of revenue for them. So, ethanol is now going to be the byproduct. And so that should take the business from an average generator of about $50 Million a year in EBITDA to about 450 over the next couple of years. Switching from selling wholesale to retail is also a nice business model transition. I like to see I've owned Air-B&Bs in the past, the luxury goods provider. If you go back 20 years, maybe 50% of their goods were sold. Directly to customers via their stores, and the rest were sold through other stores such as Bergdorf. If you look at that today, it's probably about 70, 75% sold direct. And so, I don't have to sell as much. But what they do sell at a much higher margin.

Matthew Cochrane: Right. Right.

Chadd Garcia: And then lastly, I like business with businesses with some hidden value in it. You look at. GFL, one of my larger holdings to waste hauler. They have a nascent renewable natural gas business that'll just start to hit the financials in mid-2023. That's probably worth. $3 billion of market cap potential to them. And that's so they beat out a quarter and 30% of the company's total market cap today. Nobody's looking at it yet.

Matthew Cochrane: Right. I think and I think one of the first stocks I started following you with was Valvoline. And I think that kind of falls in that like companies with hidden value assets to correct. Yeah.

Chadd Garcia: So, Valvoline historically is a producer of lubricant. So, the Valvoline brand, which is a strong brand and get a little bit of pricing power in the US, it's not growing in the rest of the world as a decent sized low to mid-single digit growth rate. But they have this instant oil change business, which is fantastic. This business, this business spun out of Ashland in 2016. It was starved for cash when it was spun out. Management can redeploy capital back into the instant oil change business as opposed to picking up dividends to the Ashland parent. And there seems to be a sales rate. Range. Since 2016. 8 to 10%. It's above 10% right now, but phenomenal. Same store sales rate. And then they took their excess cash, and they deployed it into acquiring other instant oil change companies and transform them into a Valvoline business or just greenfield and building new stores. And so, the growth rate of that business is fantastic. It's just it's been hidden because of the low to no growth of the of the lubricant business. And we don't go active, but we can certainly share our views with the board and management. And I've been communicating that they need to separate those two businesses for years and ultimately, they finally acquiesced and are in the process of selling off the lubricants businesses and focusing on the high growth. Is the oil Jeans business, which has compelling economics, some of the best economics in retail and massive growth at this point.

Matthew Cochrane: Yeah, that's a that's a pretty good combination. So what dominated headlines today and like what everybody likes, we want people to click on our material obviously is anything that has to do with like macroeconomic factors and maybe this is recency bias, but it just seems like since COVID hit, macro factors have been at the forefront of investors' minds more than they were maybe in even recent memory. This year alone, like the broader economy, they're still feeling this hangover from COVID. We've had a higher inflation than we had seen in decades. The Fed is raising rates at a rapid pace. We have geopolitical concerns involving Russia and Ukraine, China and Taiwan. How much do broader concerns about the general economy weigh on your investment selection? Like how much does that have a factor in your investment philosophy?

Chadd Garcia: Well, macro concerns are always in the back of an investor's head and. If I go back to my investment strategy, I mentioned that I like companies with forecast stable and durable revenue streams. I didn't mention that, but I will now that most of the companies that I invest in have very high returns on invested capital. And if I pick stocks with those two attributes, then I don't really have to get too worried about macro factors. So, I mean, let's look at the top ten positions of my fund as of 9-30-22. And I'll give you some examples of why that's the case. So. If you look at three positions, we have GFL, the waste hauler and APi Group, which I mentioned earlier. The company is focused on non-discretionary, regulatory driven safety inspections. And Kimmy Schmidt owns Roto-Rooter, the plumbing company that also owns Viscose, which is a writer of health care. More specifically, hospice services. In a recession, people are going to generate garbage. It's still going to get picked up in a recession. Sprinklers and buildings are still going to need to be inspected. And this is driven by law. And so, it's going to get done. People are still going to become terminally ill and need to be cared for. So, you look at those three businesses, I'm not really all too concerned about recessions. If you look at two more companies, Valvoline and we mentioned eDreams.

Chadd Garcia: These two businesses save consumers money in a recession. People will put off buying new cars. And so, the amount of new used cars will grow. And over time, the programs that car buyers have with their car dealer will run out after a period of time and they'll need to change their oil at a place like Valvoline, which is much cheaper, by the way, than going into your car dealer. I think that that company will do quite well during a recession. eDreams is an online travel agency. Its services leisure travelers primarily in Europe. They have initiated a few years ago a prime program which is modeled after Costco or Amazon Prime Consumers. Join this program. They pay €55 a year. They get paid back on discounts on their bookings and it pays back within two trips on average. I mean, if you look at Europe right now, that's the top of the list on headlines for macro concerns. You have a land war in Eastern Europe. You have massive inflation. How is eDreams doing right now? Well. Since. Ukraine was invaded on. On a monthly basis, their bookings have averaged 43% higher than their bookings in 2019. My company is doing quite well despite. Probably the strongest macro headwinds that anybody's seen in decades. Furthermore. Their prime program in their strongest market, which is in France, has about a 4% market share.

Chadd Garcia: So even if a tough environment persists, Europeans are going to travel. They're going to want to save money. And there's plenty of room for eDreams to take market share from their competitors. If you look at it, a few more companies in the top ten list. I have Texas Pacific Land Corporation, Green Plains and Archaea Energy. Texas Pacific owns royalty rates in the Permian Basin. They don't have to spend any capital to develop the rights other people do. They just get a royalty on the oil that's developed. Permian Basin royalties are driven by two things. Number one is the price of oil. So maybe I have a little bit of an inflation hedge there. But number two would be the continued development of the basin and as the low-cost oil region in the US. I think the Premier is going to continue to be developed. Green Plains we discussed. It's the ethanol producer that is switching to a producer of high value protein for animal feed. People need to eat. Animals are going to consume green plants, products. That's going to happen whether or not we have a recession or not. And then, Archaea Energy, which is in the middle of getting bought out by British Petroleum. What do they do? They take landfill gas, capture it, clean it, and turn it into renewable energy.

Chadd Garcia: That renewable energy has value because. It helps companies and other organizations. Beat their ESG goals. If Google or Amazon is coming out and say, we're going to be carbon neutral by a certain date. They get there by buying the environmental attributes that's generated by producing renewable natural gas. That's going to happen, whether or not we're in a recession or not. And then the last two companies in the top ten list would be. Brookfield Asset Management and DigitalBridge, their alternative asset managers. So, they invest in private equity or debt or other products. These two specifically do it in the infrastructure space, DigitalBridge, more specifically in the digital infrastructure space. So, think data centers, cell towers, dark fiber, small cell networks, infrastructure funds have on average an 11-year life. A recession is going to give Brookfield and Digital Ridge an attractive environment in which they can deploy capital into. But I pretty much know what their fee related earnings are going to be for the next few years. Raising large infrastructure funds takes time to do. And so, those earnings streams become very forecasted for me as an investor. And in a recession, the allocators, the pension funds, the endowments are going to look for attractive returns. It's going to make their products very desirable to large allocators.

Matthew Cochrane: So, like you said a lot of these companies, whether you're in a recession or not, you have to get it done like a hospice provider or Roto-Rooter, your drains clogged, whether it's a recession or not, has nothing to do with whether you need your drain unclogged. People are going to get their drains unclogged, like no matter what they or they save consumers money like Valvoline or eDreams. Like Jeff Bezos or Sam Walton said, one thing they always knew was that, people like saving money. It's never going to go out of style, if you can just invest in things that will save consumers money. If it's a good investment or they are attached to commodities in some way. People need those things no matter what kind of economic conditions we're in or they might even benefit in a recession. But when something like COVID hits, something that you're not expecting at all, something just so out of left field, do you ever have events that make you step back and maybe have you reconsider?

Chadd Garcia: Yeah, certainly in my career, I think I've seen three of those. And so, the first one was the amount of liquidity that was put into the financial system post the great financial crisis. And I was working in private equity at the time, and it was pretty scary when that was happening. But you could see that the Fed was acting, and you knew that rates were coming down and liquidity was going up and there was ample cash in the system and that was going to have an effect on public equity prices, which did kick off when the longest bull runs in history. I think I think the second one, which took me a little time to realize fully, was just the effect of the deflationary pressures that the combination of outsourcing has had as well as technology. I mean, there is this there's a book that was written. Right after the tech bubble burst called *EFT Companies*, which talked about all these crazy companies that were that went public during the tech bubble. I made fun of it a bit, but if you go back and read the book, all the companies ended up coming true. I mean, I think what Pets.com was lampooned quite a bit. But now people get pet food on Chewy. All that it took was bandwidth to be developed and logistical systems around these companies to be developed like Amazon and that's when you go back 20 years ago, you may have bought a book on Amazon. But now, I mean, I can go on my on my phone and order my groceries from Whole Foods and have it to me the same day. And then I think the third big change is the removal of liquidity from the system that's been happening over the last year. And you combine that with the possibility of reshoring, which is kind of the opposite of what we've seen since the nineties with outsourcing. So, I think that's going

to be a pretty interesting macro event to watch and see how that plays with the investments.

Matthew Cochrane: If you had to break out your crystal ball, how do you think that's going to affect the overall market, that removing of liquidity?

Chadd Garcia: Higher PE stocks are going to are more affected by changes in interest rates and that's just how convexity works. And so, I don't own too many very high PE stocks, but the software companies that are in my portfolio certainly fit into that category. And so, a year ago I could have certainly rotated out of some of the software companies. I didn't because I don't own that much of them. And if I look at them, they're growing their revenues. 15 to 20%. They're growing their earnings at a slightly higher rate. If I have to take some lumps in a year or a year and a half period over time, and I want to own these companies for five plus years, over time, the growth in the earnings will overwhelm any multiple contractions. And so, I didn't make any changes in those holdings, but it certainly the reshoring something that's quite interesting and certainly something to watch. And if you look at my home state of Arizona, there are semi-conductor factories going up there that's going to require massive infrastructure investments. I think DigitalBridge or Brookfield, maybe getting pieces of that, it's going to be quite interesting. One caveat, I would say, going back to what I do with the Focused Fund is highly concentrated. There's a lot of companies that are going through fundamental change. When you enter a bear market, these companies can be susceptible, just like the general market can be to sentiment and large moves. But that's I think that's a short-term phenomenon. So, in the short term, your prices can speed up a little bit. But if I'm right on the fundamentals of the business, that the businesses do have durable and growing earnings streams, over time, the valuation will get fixed either organically through the market, recognizing what hopefully I've spotted before the market does or the company having an ample amount of cash to repurchase shares.

Matthew Cochrane: So, you said it's a highly concentrated fund. Like, how do you position size? How many positions do you have or generally run from like a range maybe? And when you start those positions with like equal weights and then let them run? Or how do you constantly rebalance? How do you work through like sizes in your portfolio?

Chadd Garcia: I have about 17 positions. And then it is a legally not a diversified fund, but there are some guardrails that the SEC provides you. So, I cannot be on purchase price. About 50% in positions that are 5% or greater.

Matthew Cochrane: Okay. All right.

Chadd Garcia: It can grow to be that big, but. But on purchase price, I can't purchase it and get 5% or greater positions. About 50%. Sometimes. Sometimes the concentration in those positions has been as high as 65, 68%. Right now, it's just under. Just under 50%. As far as position sizes, the ones that my largest possessions are the ones that I have the most confidence in from a risk-return perspective. And so, it wouldn't be uncommon to start a position size at 10% of the Fund, if I have a large, ample net of conviction in the name.

Matthew Cochrane: Okay. A lot of these companies catch my eye and they have me interested. But one I'd like maybe I'd like to dig down a little deeper on is DigitalBridge. Can you tell us a little bit about this company? How did it get started and what is what does it do?

Chadd Garcia: Sure. Well, they are your neighbor being presently based in Boca Raton, which they moved there from Los Angeles. But DigitalBridge is an alternative asset manager and invests in digital infrastructure through a variety of funds. So, presently invest a little bit off its own corporate balance sheet. But we can discuss that later. It was founded by Mark Gansey, Alex Gellman and Ben Jenkins. Mark and Alex were previously at Global Tower, which was the largest privately held tower business in the US. They sold it to American Tower for $4.8 billion. Blackstone was their equity sponsor. Ben Jenkins was the Blackstone partner who led the deal. After the sale. Ben left Blackstone and. Mark and him would do sponsorships deals in the digital infrastructure space. So basically, they use their own checkbooks and then they would invite co-investors along. I think other infrastructure investors so think like the Brookfield's and the equities and the Stone Peaks and Blackstones of the world saw what they were doing and entered the game and that made it challenging to do deals on a sponsor list basis. Because their competitors could come around and guarantee a close much quicker. And so, they realized that they needed to raise a proper fund. Mark's family knew Tom Barrack, who had Colony Capital and had made an introduction with him. Colony had expertise in capital formation and raising

capital. Ben and Mark merged their DigitalBridge entity into Colony Capital. Mark was named CEO in waiting.

Chadd Garcia: Coincidentally, the board of Colony Capital wanted to move into exclusively focusing on digital infrastructure as opposed to being a REIT that invests all across real asset space. Only help them raise their first proper flagship fund. They had a goal of raising $3 billion. They ended up with $4 billion. They deployed the investments into ten investments over 18 months. They launched a second flagship fund, which they're just finished investing out of recently. They had a goal of raising $6 billion for that fund. They ended up with $8.3. Gansey ultimately took over as CEO of Colony Capital. He exited all of colony's other investments that were non digital. I think presently they have a little bit of public stock in one company. It would be the last piece for them to exit. But as far as all the real assets that they owned, they exited those and they've completely focused the business now on digital infrastructure. If you look at the business, you could break it down into two pieces the asset management portion of the business where they have several investment funds and co-investment vehicles and then they have a handful of balance sheet investments where they own. Couple tower companies and some data center businesses. Over time, they will either sell those businesses or put them into to continuation vehicles and focus the business on being an asset management business. So, they'll get the balance sheet complexity out of there. That's all.

Matthew Cochrane: That's actually what I was going to ask you about. So, is it better to think of it as an asset manager than an owner of like hard assets in the digital infrastructure space?

Chadd Garcia: Blackstone, for example, that's an asset light asset manager.

Matthew Cochrane: Right?

Chadd Garcia: The public shareholders are investing into the into the asset management business. If you look at Brookfield, it has a similar approach where they have balance sheet investments and an asset management business. Those types of business, for whatever reason, have traded at a discount compared to other alternative asset managers. Brookfield realized that and this week they've spun off 25% of their asset management

business. So, people can have a choice of investing in the balance sheet or investing in the asset management business. And so, the balance sheet stuff will likely go away and it will make the business very easy, in my opinion, to value, right? We can get to that a little bit a little bit later. But Colony was a REIT. No, because they are transforming this business into being an asset management business they created in May. So that caused a little forestalling and some downward pressure. But it's the right thing to do given the focus of the business.

Matthew Cochrane: Right, right, right. Yeah. Especially making that transition. So, when we talk about digital infrastructure, are we talking about like cell phone towers, data centers? Is there anything else to like? Are those the main two main types of assets we're talking about? Are there others I'm missing there?

Chadd Garcia: Yeah, the other two would be dark fiber and small cell networks. But, for the most part, it's a data center business and tower business. I could see in the future them launching a private equity fund which goes after some operating businesses or software companies that are related to the digital infrastructure space. And Brookfield has a PE fund where they're not investing in in infrastructure, they're investing in companies, but it has some infrastructure spin on it. I can see a DigitalBridge doing the same thing. But for the most part, I think data centers and cell towers. Anything that helps our Zoom call to continue to work.

Matthew Cochrane: Right. So, why do you like DigitalBridge over Brookfield or Blackstone or other asset managers?

Chadd Garcia: DigitalBridge to me seems like I'm going back in time and I have the ability to buy Brookfield in the early 2000s, which I'd like to be able to have done that, but I didn't. But when I look at the digital infrastructure space, I think that is one of the more interesting places to invest with respect to infrastructure investments. And when I looked at DigitalBridge, I mean. Israel, which has a massive amount of talent and that talent is not only at the asset management level, which they certainly have in spades. They have former professionals from Blackstone and TPG Macquarie, which is a solid infrastructure investor. They have launched a venture product and they lifted a team out of Qualcomm Capital. So, they definitely have talent, the asset management business. But then if you look at

their portfolio companies, there is an insane level of talent within portfolio companies. So, Alex Gellman, who I mentioned, was one of the founders of DigitalBridge, and he was the CEO and president of Global Tower. He's leading one other tower business. I've invested quite successfully in data centers over the last eight years. One of the investments I had was in Equinix, while the former CEO of Equinix is running one of digital Bridges businesses. If you look at some other data centers, companies, the other large players, Digital Realty. Well, the former CEO of Digital Realty is the chairman of one of DigitalBridge's Data Center investments.

Chadd Garcia: So, they are investing in fantastic assets and they're investing with fantastic people. You know, and then structurally it's a growing sector. There's about a half trillion dollars of CapEx that's deployed in digital infrastructure space per year. There's a lot of room for them to play. I mean, they've got their last phone was $8 million. And so, they're going to be able to grow this asset management business over a long time. And then management has a great reputation for being capital allocators. A lot of the deals that they've done thus far have been private deals. And I've talked to some investors in the private deals. Everybody seems to re-up some of the some of the deals that they've done in their funds and on balance sheet, they're starting to monetize. And so, we're starting to see some of the returns that they're generating and they've been impressive. But you can look at some of the public deals that they've done and get a sense for how astute they are. So, one deal is they bought a business called AMP, which is a mid-market infrastructure asset manager. They were having some problems within the kind of the parent company that owned AMP. One of the large PR firms competed against them to buy it. The large firm wanted to only buy the portfolio, which would have required firing all the employees and shut that down. And he saw that he could he didn't have a mid-market infrastructure product. He could take the employees and tack that on to his business. He ended up paying 8.4 times fee-related earnings for this business, which is basically run off value, assuming they never raise another fund. But, by the way the margins in this business were low, which means the expenses were high. There's some cost synergies there which get the price down to about six times. And if they can take legacy DigitalBridge investors and introduce them to a new product and raise a new mid-market infrastructure fund, there'll be revenue synergies there. If they can take AMP LPs and introduce them to some of the DigitalBridge's, other funds, they'll be revenue synergies there. So, this is a pretty savvy deal that they got in at a very low cost that could be highly accretive for them. And then.

If you look at another deal, which has been in the news since last summer and has attracted the attention of some famous short sellers, they bought a business called Switch and Switches, a data center company that focuses on private clouds. It has they have their own SWAT team that if you think about the level of security that this thing has, it's a mess. It is a very interesting business. It's not some data center business that is just a wall selling to Google.

Chadd Garcia: I mean, they have an interesting niche in the in the private cloud space. They paid 30 times trailing earnings. If you look at ‘22 EBITDA, they paid three times ‘22 EBITDA. The business, the deal just closed in the last week. I would think that you would want to look at it on a forward, but let's go with the three times. Fairly naive if you look at the deal documents they raised. $1,000,000,000 of debt in excess of what they will need to close the deal and that debt can be paid down within. Two years of close. I think what they're going to do is they're going to. Invest an additional billion dollars of equity so that give them $2 billion of capital to deploy in this business which has power and permits three things that you need if you're going to build new data centers and they have ample demand from their customers, this business is going to double in the next year or two. And, that will take if you pro forma that. Now that that what looks to be a three time deal is now 17 times. And, that's some pretty interesting capital allocation. Short sellers are happy to talk about how much they paid. But if you peel the onion back, I don't think they paid that much given what they're going to be able to do with this business.

Matthew Cochrane: Right. So, when I look at companies like this or when I think of companies like this, you just you just have to trust management, though, right, to keep finding deals like this because it's not like especially for the individual investor, it's really hard to track every deal like an asset manager like DigitalBridge is going to do. And you really just have to have a lot of faith that their teams will keep finding deals like this. Do you see it the same way?

Chadd Garcia: Well, you know. A couple of things with this. It's our business to do that. And they can operate globally. So, they can operate in different markets. They can invest in towers or data centers or dark fiber or other digital infrastructure. So, there's diversity in what they can invest in. But, the wages are just set up. Is that the C Corp, which is what you and I would invest in? That gets the management fees. And again, these are 11-year

funds. And so, if they raise a fund, we're going to get locked in fees for 11 years. We also get about a third of the carried interest. The investment team in these funds, they get two thirds of the carried interest. They don't get the management fees. So, with respect to the switch transaction, the short seller was saying that they only did this to get the management fees. Well, that's not true because the deal team doesn't get the management fees. The investors and the C Corp get the management fees. The deal team gets two thirds of the carry. Are you telling me that they're going to go out and overpay for a deal to get management fees that they don't see a part of? And endanger their carry, which is why they're there. I don't think so.

Matthew Cochrane: So, the incentives are lined up right. For some, like this might sound like a very complicated business model, but you could kind of simplify it, right? Like with just the management fees and maybe setting aside the balance sheet assets.

Chadd Garcia: Well. I recently read a book team of teams by Stanley McChrystal where he. Distinguishes complexity in the complications. So, he said something that's complex would be like the weather. It's not predictable. There's a lot of variables. You can't forecast it. I would say the same thing with day-to-day stock price movements. Who knows? Complicated would be like a Rolex watch. There's a lot of moving parts. It may take a little. May take somebody a long time to figure out how it works. But if you put it all together, it's going to work in a predictable way. And so, I would say that the drawbridge is not complex, it's complicated. And so, they have several different funds or investment vehicles in those funds. They have investments there. They're going to do well or not. If they do well, it's going to generate carry and it's going to allow them to raise more capital. It becomes very simple when you look at it. What do they do? They raise capital, they deploy it, they harvest their investments. If they have returns, they're going to be able to keep doing that. If not, then they won't.

Matthew Cochrane: So that it all sounds very interesting. It makes me want to take a closer look at it. But I have to point out, it's far from the only stock that's down this year. Goodness knows I have many stocks in my own portfolio that have taken this kind of hit. But digital British stock is down more than 50% year to date. Why is it down? Is it down with the general market or is there other factors here that have weighed on the stock?

Chadd Garcia: Well, I think that the stock price started decline when they when they announced the dear reading, and so that had some for sellers. And then when it transitioned to a C-Corp so that all the all the read investors had to exit. The second reason to be, I don't think that's going to be too big of a long term issue for them. And then the third reason is probably the complications it takes. It does take an investor. Capital, deploying capital and harvesting investments. They they're going to make about 90 basis points off their raising. You can get pretty comfortable where their earnings are going to be over the next five or so years.

Matthew Cochrane: Asset managers, especially alternative asset managers just seem to have a lot going for them. I mean, interest rates have been coming up, but they're still historically pretty low. Institutional investors are looking for other things besides stocks and bonds, right? And so, it just seems like there's like a lot of tailwinds to this industry in raising capital.

Chadd Garcia: Well, there's a lot of tailwinds for infrastructure investors, and I think there's going to be a lot of tailwinds, particularly for digital infrastructure investors. If you look at the large capital allocators, they are under invested in infrastructure in general and they're certainly under invested in digital infrastructure. And I think that's going to bode quite well for DigitalBridge's ability to raise capital for a long time.

Matthew Cochrane: Yeah. I'm involved as a pension trustee for where I work in my day job. And, just like you can just tell there's an appetite for different things. Like I said, other than stocks and bonds. Bond rates still aren't where you meet a lot of an assumed rate of returns and stocks have taken this huge hit and there's definitely a lot of thirst for something like this. So, it's a conversation that's fascinating. Lot to love for anyone who likes investing. But what I respect Ave Maria, even though I don't invest this way, is that the fund follows what it calls morally responsible investing. Now, this is a bit different than the usual ESG pitch that you might get at this point, because Ave Maria, as its name suggests, follows my words, but like maybe like a Catholic moral code. Chadd, what does morally responsible investing mean to Ave Maria? And how did it get its start?

Chadd Garcia: Yeah, well, let me start with the history. So, Tom Monaghan, who was the founder of Domino's Pizza and a devout Catholic. He wanted to develop a way for

Catholics to invest in a manner that wouldn't compromise their moral values. So, in his vision, allow a place for Catholics to invest. That and the companies that they invest in would be in line with the teachings of the faith. And so, he knew the founder of my firm, which he started asset management, was in the early eighties. He discussed this idea with them. He gave us the name Ave Maria and was the first investor in our first fund, which launched in 2001, and then subsequently we launched five additional funds. So, if you look at. Catholics and investing. If you look at the guidance from the US bishops, there are basically three ways for Catholics to invest and not compromise their moral beliefs. First, you can buy whatever you want, even companies that have activities that are contrary to the teachings of the faith. But if you do that, you must use your position as a shareholder to advocate for change. So that would be one way. The second way to invest is to invest in companies that do good things. And so, I would say that's not our exclusive approach to things, but I would certainly say that several of our companies do good things for society. One, I would point out we mentioned earlier was AMD, which owns VITASOY, which cares for the dying. And then the third approach is what I call the do no evil approach. And so, in this approach, we screen out companies that have activities that violate the moral teachings of the faith. And in this approach, we have a zero-tolerance policy. So, if a company has an offensive activity. It can be a very small part of the business, but we're going to screen it out and our advisory board set our screens so we cannot participate in companies that have anything to do with abortion, give money to abortion providers like Planned Parenthood or produce or distribute pornography or participate in embryonic stem cell research.

Matthew Cochrane: How direct does a company I don't know if that's the right word, but like, how direct does a company have to be involved with that? So, let's just say a company like Amazon, which sells a gazillion items on your website and some of it might be pornographic, so if you guys have a zero tolerance approach to like distributing pornography, would that necessarily exclude Amazon from your investment universe?

Chadd Garcia: Yes. So, a bit of an aside from liking stocks and loving the study of business as a bit of a theology. And so, from a Catholic perspective, we cannot materially participate in evil. If it's if it's incidental, it's remote, then that's fine. If a person is going to invest in Amazon, then they're going to have to make a determination if the offensive activity in this case producing or distributing contraception? Is it remote or is it material? But, the

approach that we've taken at the funds is to just not have to think about that. And we have a zero-tolerance approach. The pornography that Amazon distributes may be de minimis, but that makes it a no go for us. The presence of it takes it out of our consideration. And if you want another example, you can look at the cable companies that would be obvious. Maybe a little less obvious would be hotels that have pay per view pornography. There are a some hotels that don't and we could invest in those businesses, but a lot of them do. And so that would take the hotels out. We can’t invest in cruise ships because of the pornography that people can buy on a pay per view.

Matthew Cochrane: Now, what about a data center that might have bytes of information that are pornographic in nature going through it before it's distributed to the end consumer? Or is that considered incidental or not?

Chadd Garcia: I mean, that would be like UPS delivers it, but you don't know what's in the box. Like UPS would be illicit for us. I would think the data center would be the same way. Now, I've been investing in data centers for eight years now, and I think I've come up with some pretty savvy diligence ways to find out who some of the customers are in some of these data centers, which as an investor helped me kind of learn the moat that surround some of them. And so, I did find that Pornhub was in a data center that DigitalBridge had a minority investment in, and I brought up. I brought that up to the DigitalBridge team and also brought up the allegations with respect to trafficking and minors that made news. In the last couple of years, Visa and MasterCard were targeted on that, about facilitating some of that. And I immediately got back on it and we'll be terminating the contract and we will keep our eyes open that they don't come in through a third party. So. That was that was really during that day, they did the right thing.

Matthew Cochrane: Investing can already be very difficult at times, at least for me, but this almost seems like you're giving yourself another handicap, you know, against investors that you know that you have to kind of compete with in the money management world for returns. How much of a handicap do you find this to be?

Chadd Garcia: Well, I would say that. If you talk to my friends that invested in cable, maybe. Maybe they don't think it's a handicap.

Matthew Cochrane: All right. All right.

Chadd Garcia: So, I'm the co-manager of our Growth Fund. And, you know a large lot of the FAANG stocks are in the growth index, particularly as large-cap growth, which is what that fund focuses on. Some years when the FAANG stocks did quite well, that made it a little harder for us. When the FANNG stocks didn't do well, it made it a little easier for us. But I think that our ability to pick quality stocks, aside from some of those some of the companies that are offenders, speaks well or stock picking ability and I'm fine with particularly to the Focused Fund. I only need to have 15 to 20 names, so it's easy for me to find good investments that within the within my investable universe.

Matthew Cochrane: Have you ever had a good investment and then like at the end, discover they do support one of these kinds of things and have to exclude it? That seems like maybe put this at the beginning of your due diligence process?

Chadd Garcia: Yeah. So, there are certain screens that you can that we purchase that help us. But then all of its due diligence as well, you know, dig into the financial statements. But yeah, I worked on some on Jarden, which was another company that was based near you. And then I got kind of towards the end of it and I read one line in the 10-K that know it was a small part of the business and I wish they didn't do it. So that ended it for me.

Matthew Cochrane: Gotcha. Well, Chad, like I think I've taken up enough of your time but thank you so much for coming on today.

Chadd Garcia: It was a pleasure. Thanks for having me. I enjoyed it.

Matthew Cochrane: If people are more interested in Ave Maria, where can they find out more about your funds?

Chadd Garcia: Sure. Well, the Focused Fund on which we spent a lot of time discussing the ticker for that is AVEAX, They can also visit our website at www.avemariafunds.com or they can give us a call at 866-AVE-MARIA.

Matthew Cochrane: Well, Chad, thank you so much.

Chadd Garcia: Great to be with you.

Matthew Cochrane: That'll wrap it up. I'm Matthew Cochrane, a lead advisor at Seven Investing where It Is our mission to empower you to invest in your future. Have a great day.

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As of 12-31-22, the holding percentages in the Ave Maria Focused Fund of the stocks mentioned in this commentary are as follows: APi Group Corporation (11.2%), Green Plains, Inc. (4.7%), GFL Environmental, Inc. (11.9%), Valvoline, Inc. (4.6%), eDreams ODIGEO SA (11.5%), Texas Pacific Land Corporation (1.0%), Brookfield Asset Management* (8.7%), DigitalBridge Group, Inc. (10.0%) and Equinix, Inc. (not held). Fund holdings are subject to change and should not be considered purchase recommendations. There is no assurance that the securities mentioned remain in the Fund's portfolio or that securities sold have not been repurchased. The Ave Maria Focused Fund's top ten holdings as of 12-31-22: GFL Environmental, Inc. (11.9%), eDreams ODIGEO SA (11.5%), APi Group Corporation (11.2%), DigitalBridge Group, Inc. (10.0%), Brookfield Asset Management* (8.7%), Permian Basin Royalty Trust (4.8%), Green Plains, Inc. (4.7%), Orion Engineered Carbons SA (4.7%), Valvoline, Inc. (4.6%) and Radius Global Infrastructure, Inc. (4.6%). The most current available data regarding portfolio holdings can be found on our website, www.avemariafunds.com. Current and future portfolio holdings are subject to risk. *Combination of Brookfield Asset Mgt Reinsurance Partners and Brookfield Asset Management, Inc.

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