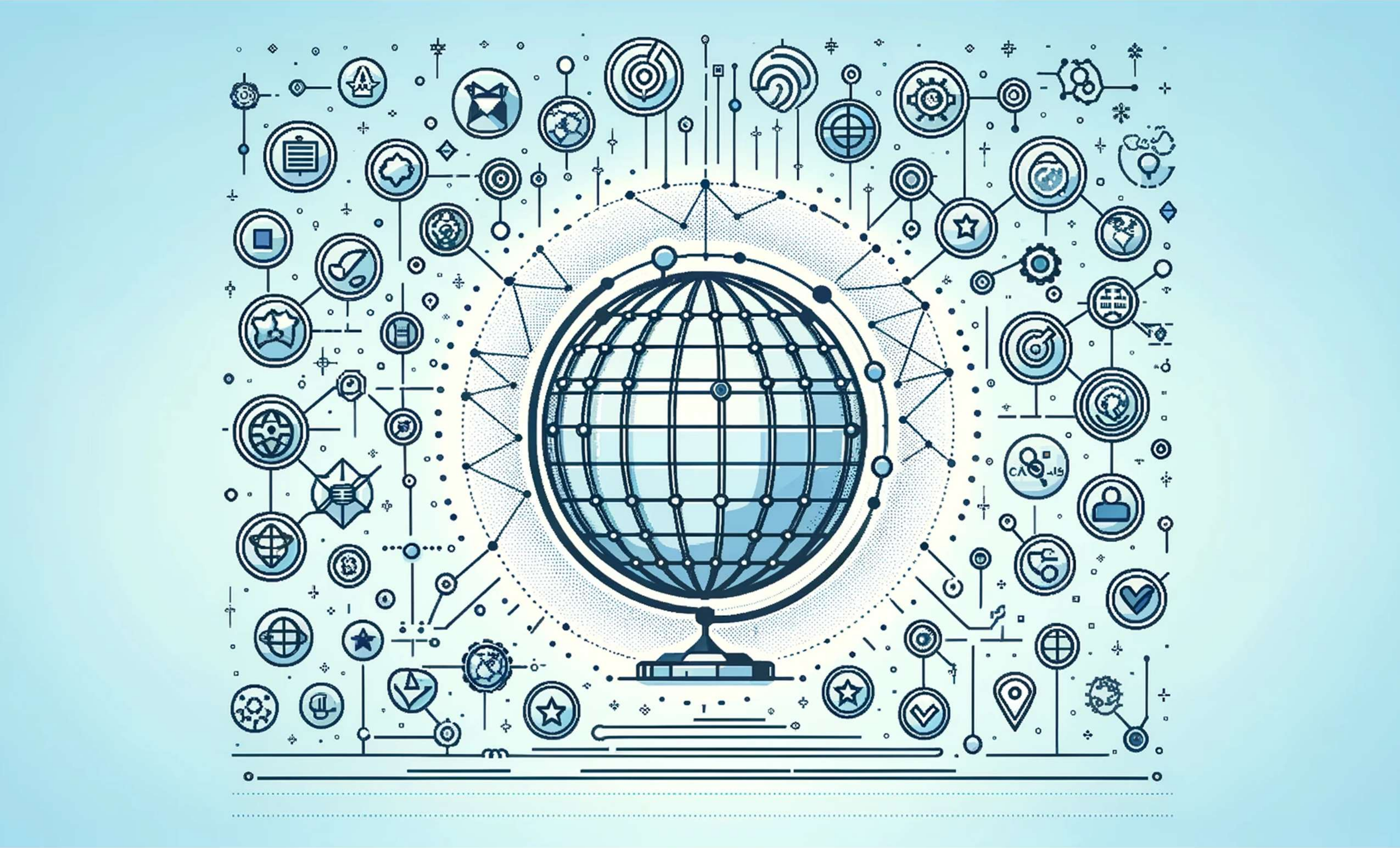
McLean Capital

DIAMOND FUND

WE BELIEVE THAT QUALITY IS THE KEY

McLean Capital created a Fund that seeks to capture the most exceptional companies in North America in terms of their profitability and their competitive advantages.



About McLean Capital

Capture long term growth created by exceptional quality

With over 13 years of experience, our goal is to identify long-term investment opportunities resulting from strategies that have created businesses that are abnormally profitable in terms of both their margins and their returns on capital.

By focusing on research and analysis, we believe we can generate attractive capital appreciation and long-term security.

McLean Capital researches and invests in a broad universe of companies that directly or indirectly span all countries and markets.

We have the resources in place to identify companies that we believe are leaders in sustainable profitability.

Our strategy

McLean Capital manages a discretionary equity portfolio (the McLean Capital Fund), a passive portfolio (the Diamond Fund) and a fixed income fund (the McLean Capital Fixed Income Fund). We analyze the numbers, clean the accounting data and seek to understand the competitive advantages of our companies. We take the perspective of business owners, not stock speculators.

The Diamond Fund

An Index Fund

Important definition: MARKET INDEX

> A market index is a formulaic portfolio that tracks the performance of a group of securities selected based on specific, predefined criteria rather than the decisions of a portfolio manager.
>
> For example, the S&P 500 Index mainly includes the 500 largest publicly traded U.S. companies. Companies are added or removed from the index based on this criterion. The weight of each company in the S&P 500 is proportional to its market capitalization, meaning larger companies like Apple or Microsoft have a greater influence on the index's overall performance. This is a formulaic portfolio, a market index. You can buy an S&P 500 index *fund* to replicate this index.

The Diamond Fund is an index fund, formulaic just like the S&P 500 index, that tracks the Diamond Index, a stock market index created by McLean Capital. Here are the characteristics of the Diamond Index / Diamond Fund:

- Only public companies that are part of the S&P 500 or S&P/TSX can be included
- Only companies with abnormally high profit margins
- Only companies with abnormally high returns on capital
- Accounting data is cleaned to identify true sustainable profits and put all companies on the same level in terms of their capitalization structure.
- Weightings are established by the Diamond Fund Committee and guided by a proprietary formula based on market capitalization.

The Diamond Index does not have any subjective criteria. Just like most indices, the components are not chosen by managers. They follow the criteria above. The big difference comes in the cleansing of the data. You need clean accounting data that removes all the effects of temporary gains and losses, accounting tricks and uneven structures across companies.

The advantages of investing in the Diamond Fund

- Long-term growth opportunities by accessing the best companies in North America
- Diversification
- Profile similar to an investment in major stock market indices with a value-add for quality
- Accounting data is cleaned and therefore the strengths of exceptional companies stand out clearly in comparison with typical screening tools.
- Advantageous fees.

The historical returns of the Diamond Index

		To compare	
Year	Diamond	S&P 500 Index	MCSI World Index
2014	30.9%	13.7%	5.5%
2015	18.1%	1.4%	(0.3%)
2016	12.3%	12.0%	8.2%
2017	27.6%	21.8%	23.1%
2018	5.6%	(4.4%)	(8.2%)
2019	36.6%	31.5%	28.4%
2020	29.7%	18.4%	16.5%
2021	29.6%	28.7%	22.4%
2022	(4.9%)	(18.1%)	(17.7%)
2023	31.6%	26.3%	24.4%
2024 (11 months)	28.0%	27.1%	27.4%
Annualized	21.8%	13.4%	10.8%

Above we present the returns of market indices and not of actual portfolios. It is, however, possible to replicate these indices with index funds. This is what the Diamond Fund does. Past performance is no guarantee of future results.

Rebalancing, turnover and taxes

The Diamond Fund has almost no turnover since companies that meet the 2 criteria (minimum return on equity adjusted for debt level and minimum net profit margins) tend to stay Diamonds for almost 30 years. The low turnover of positions mitigates taxes.

For example, Apple became a Diamond in 2009 and it still is today. After cleansing the data, since 2009, the average net profit margin and return on equity have been 23% and 45% respectively. Alphabet (Google), on the other hand, was not and still isn't today. Surprisingly, when adjusting the accounting profits to put Alphabet on the same footing as other companies, return on equity doesn't pass the test; although it does remain a very high quality company. Domino's was a Diamond 20 years ago and still is today. S&P Global, Microsoft, Jack Henry, same thing.

This creates very little taxes since very low turnover means very low taxes.

Without annual rebalancing, turnover would have been only 3.4% per year on average between 2006 and 2023.

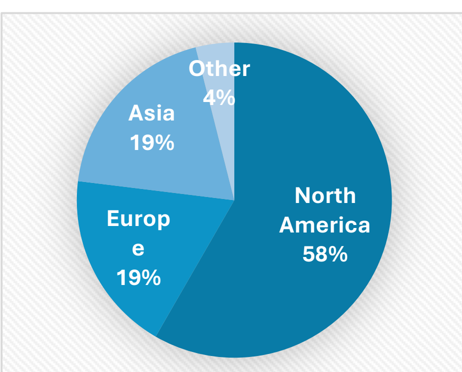
The rebalancing will be decided by a committee including members of the McLean Capital team. As a general guide, the committee will follow the following rules:

- Proprietary formula based on market capitalization of each position. Larger market capitalizations get more weight in the portfolio.
- If capital is necessary to buy new positions, we sell positions that are off the Diamond Index formula weight.
- Capital gains are considered in rebalancing decisions.
- The weight of the security in the S&P 500 or S&P/TSX can serve as a guide for the Diamond Fund.
- It is always acceptable to do a complete rebalancing to bring all weightings back to the same level, if the committee makes this decision.

Diversification

The Diamond Fund is diversified in terms of how many components are included and sector weights:

Important note: all components are based in North America. This pie chart relates to the source of their revenues.



Sectors
Technology
Finance
Industrial
Pharma
Food
Cons. Discr.
Automotive
Health
Retail
Staples
Restaurants
Real Estate

Performance

How does the volatility-adjusted performance of the Diamond Index compare to that of the S&P 500 index? To find out, we present to you the Sharpe, Sortino and Information ratios. For these three ratios, the higher the value, the better. Note once again that past results do not prejudge future results.

	Sharpe Ratio		Sortino Ratio		Information Ratio
Data type	Diamond Fund	S&P 500	Diamond Fund	S&P 500	
Monthly*	0.88	0.29	2.85	0.52	1.04
Annual**	1.04	0.32	3.21	0.56	1.03

* January 2021 to June 2024 for the Diamond Fund and August 2024 for the S&P 500

** 2006 to 2023 inclusively

The Sharpe ratio is the excess return of the index per unit of volatility (σp). Excess return is calculated by subtracting the risk-free returns (Rf) from the index returns (Rp).

$$Sharpe\ Ratio = \frac{R_p - R_f}{\sigma_p}$$

The Sortino ratio is similar to that of Sharpe: it is the excess return of the index per unit of volatility of negative excess returns (σd). The lower the frequency and magnitude of negative excess returns, the lower the denominator, the higher the Sortino ratio. In other words, the Sortino ratio does not penalize a portfolio that has volatility for positive returns.

$$Sortino\ Ratio = \frac{R_p - R_f}{\sigma_d}$$

The Information ratio makes it possible to compare the performance of the Diamond index and its benchmark index, the S&P 500. The Information ratio is the difference between the returns of the Diamond index and the returns of the S&P 500 (RB) per unit of volatility of these excess returns (σa).

$$Information\ Ratio = \frac{R_P - R_B}{\sigma_a}$$

All data used to arrive at the results presented are back-tested data.

The McLean Capital Team

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Notes

For more information on investment opportunities in exceptional businesses, please contact McLean Capital at info@mcleancapital.ca or call 450-937-9476.