

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

Quality filter on the S&P 500 and the S&P/TSX stock indices

The Diamond Fund is a fund that tracks the Diamond Index, a stock market index created by McLean Capital. Here are the characteristics of the Diamond Index:

- Only public companies that are part of the S&P 500 or S&P/TSX
- Company with abnormally high profit margins
- Company 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.
- All components of the Diamond Index have equal weightings.

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

As of December 31, 2024

- 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

Year	Diamond Index
2014	30.9%
2015	18.1%
2016	12.3%
2017	27.6%
2018	5.6%
2019	36.6%
2020	29.7%
2021	29.6%
2022	-4.9%
2023	31.6%
2024	26.1%
Annualized	20.7%

Above we present the returns of an index and not of an actual portfolio. It is however possible to replicate this index. This is what the Diamond Fund does. Past performance is no guarantee of future results.

Rebalancing, turnover and taxes

The Diamond Index has almost no turnover since companies that meet the 2 criteria (minimum return on equity adjusted for debt level and minimum net profit margins) to be Diamonds tend to stay Diamonds.

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.

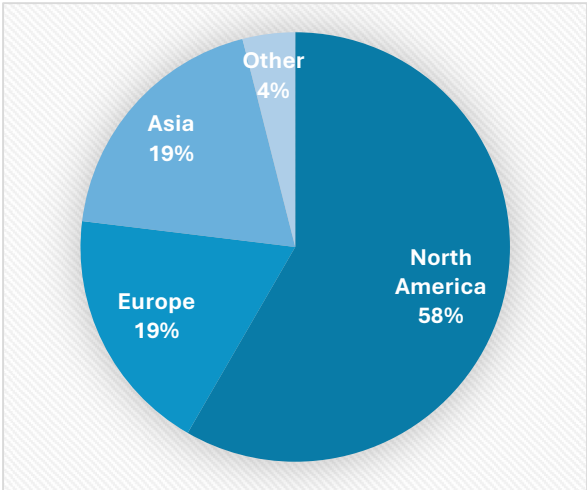
For example, if we did an annual rebalancing aimed at bringing equal weightings across constituents, the average turnover of the Diamond Index would be 11.9% between 2006 and 2023. Most of the turnover would be due to this rebalancing. Without this, turnover would have been only 3.4% per year on average.

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:

- Maximum weighting in a company: 10%.
- If capital is necessary, to buy new positions for example, it is recommended to sell the largest positions.
- Capital gains are considered in rebalancing decisions.
- It is best to maintain a minimum weighting of 1% in each position.
- 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 Index is diversified in terms of how many components are included and sector weights:



Sectors	2023	2015	2006
Technology	41%	40%	37%
Finance	14%	13%	18%
Industrial	15%	7%	7%
Pharma	8%	9%	6%
Food	4%	7%	6%
Cons. Discr.	4%	2%	2%
Automotive	3%	2%	2%
Health	3%	7%	8%
Retail	-	7%	6%
Staples	3%	2%	2%
Restaurants	3%	4%	4%
Real Estate	2%	-	2%
Components	59	45	49

The Diamond Index is diversified in terms of the **geographical source of the revenues from the underlying companies.**

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.

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