

The Ground Rules[®]

Investment Strategy Based on Core Principles

Our track record of consistently outperforming the market derives from both our knack for finding undervalued investment opportunities and our adherence to core principles—investment "Ground Rules" that include:

- Sustainable value investing for long-term growth,
- Clear and pre-defined measures of success,
- Investing alongside you, and
- Being compensated only for solid performance.

We created these Ground Rules to provide clear insight into the strategies and values that have been the driving premises behind our past performance, and which form the basis for all of our investment decisions. It is our firm belief that these concepts and principles will help make your investment portfolio more successful and secure.

Ground Rule 1

If you don't make money, neither do we.

Our earnings are directly related to how well we perform for you.

Performance-Based Earnings

We can't guarantee results; no investment firm can. However, we *can* guarantee that we're in this to prosper together. If you don't make money, neither do we. We charge no management fees¹, no commissions, and no markups. We wouldn't invest our wealth with managers unwilling to put their own skin in the game, nor would we expect this of our clients.

Most investment firms profit regardless of the outcome for clients. Whether pay is billed as "Management Fees," "Asset-Based Fees," "Trading Commissions," "Markups," "Hourly Charges," "Flat Fees," or by any other name, these forms of compensation all have this in common: they are payable regardless of performance—and they are substantial.

Whatever their permutations and combinations, nonperformance-based fees can often equal two percent (2%) of your portfolio's value every year. Two percent is a seemingly small amount until you consider this fact: management fees are calculated on, and taken out of your *entire portfolio*. With the market's average return over the past century being about 7%, managers who take 2% of your assets are essentially capturing 28.57% of your profits. And even if you experience a nominal return or have a losing year, most firms still levy fees.

Our "High Water Mark" Provision

In addition to calculating our compensation based solely on solid performance, we employ a "high water mark provision." Essentially, this means that if there are any losses, we do not take any compensation unless and until all losses are first *fully* recovered.

The idea of charging a fee on assets that are losing money doesn't seem reasonable to us. With performance-based principles and practices firmly in place, we believe that over time you will do better, and consequently we will do better. Making money can be, and ought to be, a win/win proposition for manager and client alike.

¹POIG charges no management fees for investors whose net worth exceeds 1.5 million or who otherwise meet the SEC's definition of "qualified clients."

Ground Rule 2

Our focus is on *intrinsic* value.

Identifying undervalued opportunities results in lower downside risk and higher upside potential—reversing the notion of "no pain, no gain."

The Strategy

The key to any investor's success is the ability to find companies and assets that offer great prospects for the future but do not yet reflect that potential in their price. By painstakingly researching and conceptually evaluating a company's potential, as well as its current finances, we establish an investment's *intrinsic* value. We then compare that value to the current stock price to determine the caliber of the investment opportunity. In our view, this fundamental style of investing is the only way to make substantial and sustainable returns.

This is the opposite of short-term strategies such as day trading, market timing, and other momentum investing techniques. True, these tactics can sometimes lead to quick and eye-catching gains. But they more closely resemble a coin toss than a sustainable investment strategy. Unlike a coin toss, however, one thing is certain with short-term strategies—any gains made are heavily taxed, placing your return at a distinct disadvantage. Compounded over years, the difference in tax rate between long-term capital gains and gains made through short-term strategies (check with your tax consultant) can make an enormous difference in your overall return.

The Method

Intrinsic value investing necessitates gaining a deep understanding of a company's operations, financials, and investment merits—and then layering that on top of an understanding of the macro issues relevant to the company's industry. Among the many factors we analyze are:

- Does the company have a strong and proven management team?
- What is their track record for growth and innovation?
- Is there substantial market potential?
- Is there an efficient use of capital?
- Are debt and leverage levels kept moderate?
- Have there been significant political, regulatory, or environmental changes affecting the industry?
- Are there emerging competitors and competing markets that may impact long-term value?
- What are the obstacles to future growth?

...and a myriad of other considerations.

We believe in our value investing approach, hence our promise that we will only make money if we make money for you.

Ground Rule 3

Let's maintain a *long-term* perspective.

We realize that in the short term, market prices may reflect emotions, momentum, whims, and insecurities. Over the longer term, they reflect reality.

Stocks can be evaluated by the minute, the hour, the day, or the month, and you will almost always see changes in the share price. Yet market fluctuations do not mean there was a change in the company's intrinsic value. We maintain our focus on the fundamentals that make a stock attractive to us in the first place, with the understanding that market fluctuations can and will occur.

We suggest, at minimum, a two-year period for our investments to be evaluated. This timeframe allows for the breathing room needed to assess the long-term outcome, and helps keep us all from acting irrationally in the face of market turbulence.

Ground Rule 4

We set our goals up front, then allow the natural benefits of compounding to bolster our total returns.

"Compound interest is the eighth wonder of the world. He who understands it, earns it." —attributed to Albert Einstein

Our Measures of Success

Let's define success *up front*: our goal is to outperform the overall market (Standard & Poor 500) by an average of eight percent, per year, over the long run.

In order to gauge how an investment manager is performing, it is critical to gauge his/her performance against a broad market barometer like the S&P 500, over the same time period. Case in point: an investment manager may show a 15% return, but if the market is up 25% during the same time period, the manager's performance is actually lacking. We will always strive to compare ourselves to the overall market, in addition to other indices that are relevant during the same time period.

Benefits of Compounding over the Long Term

It is our intention to reach our performance goal while also adopting a long-term investment view. Short-term gains are a good thing, but as the chart below illustrates, if gains are allowed to compound over a period of time, the rewards can be exponential.

Value at	<i>Approx. Market Avg.</i> 7% return	<i>Market Avg. + 8%</i> 15% return
Year 1	\$107,000.00	\$115,000.00
Year 2	\$114,490.00	\$132,250.00
Year 3	\$122,504.30	\$152,087.50
Year 4	\$131,079.60	\$174,900.63
Year 5	\$140,255.17	\$201,135.72
...Year 10	\$196,715.14	\$404,555.77
Year 15	\$275,903.15	\$813,706.16
Year 20	\$386,968.45	\$1,636,653.74
Year 25	\$542,743.26	\$3,291,895.26

It is amazing the difference a few extra percentage points compounded over time can make in your return. No wonder compound growth has been called the "eighth wonder of the world."

Ground Rule 5

We take a balanced approach to diversification.

We maintain our edge by selecting only the best opportunities and investing substantially in them.

At Prime Opportunities we concentrate on investing in the best companies rather than adding "second"- and "third"-tier stocks to our portfolios simply for the sake of diversification.

While diversification truly does have many benefits, *over-diversification* can lead to a loss of investment discipline, casting the focus on the number of stocks held rather than the potential value of each investment. For example, the average stock mutual fund has approximately 135 investments; in this scenario, no single investment can account for more than 5% of the overall portfolio. With that many investments, your performance cannot help but mirror, rather than outperform, the market.

Seeking out investment gems that meet our parameters and standards is not easy. That's why when we do find them, we invest in proportion to our enthusiasm for them.

Ground Rule 6

We are invested alongside you.

How you perform is how we perform. We invest alongside you in a singular, focused strategy, employing the best investment opportunities we can find.

Our investment approach is simply this—the strategy in which we invest your assets is the strategy in which we invest ours. It's hard enough to pick the right institution to invest with. You shouldn't have to also deal with the smoke and mirrors of picking the right strategy within that institution.

One strategy means one result, reported in a straightforward and clear manner. No hunting, no digging, no deciphering needed. And since we are invested alongside you, at the end of the day your performance numbers will reflect ours.

Ground Rule 7

We understand you're not just investing your money, you're investing your trust.

We implement up-front, straightforward, and transparent safeguards for your peace of mind and security.

The Safety of Your Money

You maintain complete legal ownership of your assets at all times. Your funds are held in a Separately Managed Account, in your name, and administered by a reputable third party discount broker such as TD Ameritrade, Charles Schwab, or Interactive Brokers. All orders are executed through this independent third party.

In addition, because assets are held in your own name, you have the freedom to take your money out at any time, with no penalties, ever.

Performance Results Verified by an Independent GIPS Verifier (Ashland Partners & Company LLP)

Maintaining your trust gives us the ability to invest long-term. That is why our firm has adopted the Global Investment Performance Standards (GIPS), and had our compliance with GIPS independently verified. These voluntary measures ensure that our performance is calculated correctly and ethically, and that our performance reports are prepared according to the highest of standards.

Client Communications

We provide simple and straightforward reports that are fully transparent and show exactly how your investments are faring in a clear, at-a-glance way. Your account custodians also provide monthly statements with in depth analysis of your investments.

In addition, all of our investors are encouraged to attend our annual company meetings at The Beverly Hills Hotel. These meetings feature interactive discussions and private consultations with our investment team.

An Opportunity to Invest Together

If these Ground Rules seem compatible with your investment views, we would be honored to become one of your investment managers. We're available to answer any questions you may have. You can reach us at (800) 550-4188 or clientcare@primeopp.com.

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ONE STRATEGY DOES NOT FIT ALL: When managing client accounts, we use the same general investment strategy for all clients. Our investment strategy is not necessarily suitable for ALL types of investors. Additionally, the investment strategy may be suitable for only a portion of a client’s total investable assets. When POIG does not manage all of a client’s investable assets, we recommend the client seek assistance from other financial professionals for the purpose of developing a fully

diversified investment portfolio. It should be noted that POIG does not recommend specific financial professionals.

Clients may place reasonable restrictions on their account managed by our firm; however, POIG may not be able to accommodate restrictions that deviate too far away from our general investment strategy. In these situations, we will inform the client that POIG’s investment strategy is not appropriate for the client and recommend the client seek assistance from other financial professionals.

For reasons including variances in account holdings, variances in the investment management fee incurred, market fluctuation, the date on which a client may engage our investment management services, and any account contributions or withdrawals, the performance of a specific client’s account may vary substantially from the performance represented herein.

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- Provide documentation to POIG so that POIG shall reasonably believe the client has either a net worth of \$1,500,000 or is a qualified purchaser under Section 2(a)(51)(A) of the Investment Company Act; OR
- Have at least \$750,000 under management with POIG at the time the client enters into an agreement with POIG.

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