

Information Edge With Margin of Safety

Investors searching for deep value opportunities have a better appreciation of a company's assets and business models. Yet, not all value investors are disciplined enough to analyze balance sheets first and income statements second. James C. Roumell and his team search and track businesses for years only to invest when a stock is considerably at odds with underlying value.

Could you give a brief history of the fund?

Roumell Asset Management, LLC founded in 1998 is located in Washington, D.C. We are an opportunistic investment manager with a deep value investment bias and manage funds in equity, balanced and fixed income accounts for individuals and corporations.

We offer two investment products – Roumell Opportunistic Value Fund (RAMSX) and Separately Managed Account services. Our Fund is designed to mirror our separate account investment style and its long-term performance record.

What core beliefs or principles drive your investment philosophy?

We are first and foremost opportunistic. We are deep value oriented but not religiously so: we like finding “growth” companies (possessing the right attributes), we remain conscious of greater economic risks and sell when our price target is met, which are not traits commonly found in traditional deep value managers.

We like undiscovered ideas because they allow us to fully leverage our in-house research process which is most often driven by company and industry visits and in-depth company analysis.

Our ultimate goal is to buy securities at a meaningful discount to our estimate of underlying intrinsic value to provide clients with compelling returns while reducing risk.

We believe our analytical and research strengths are anchored in mental toughness, imagination, and

conservative judgment. We believe temperament plays a critical role in leveraging investment talent and in securing superior long term investment returns.

How does your philosophy translate into the fund's investment strategy?

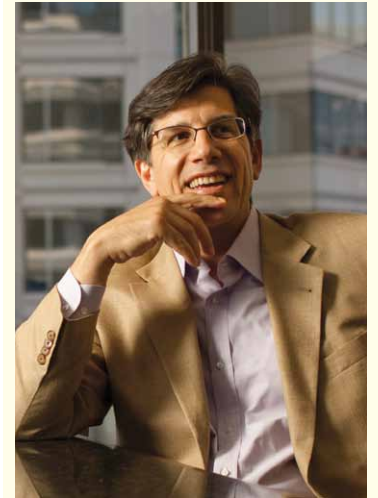
Our approach is different in that we do not want market exposure but rather highly company-specific risk at very selective prices.

On the equity side, we want strong balance sheets, competent management teams and investment redundancy. We live with both macro-economic and overall market valuation concerns so our individual investment thesis must be strong enough on its own to basically trump both of these concerns.

We are interested in finding growth companies, even as a deep value oriented investor. We are willing to trade liquidity for exceptional value that is safe. In other words, companies must be exceptionally well-capitalized and have quantifiable investment attributes that provide a measure of protection to the firm's valuation.

Our investments, in other words, tend to be longer-term smaller informational edge type stories that will be held on a multi-year basis.

We typically invest in smaller and mid-sized companies that are less followed by brokerage firms and are more likely to be inefficiently priced. Nonetheless, we are all-cap equity investors. Lastly, we view cash as a default: we're un-invested



JAMES C. ROUMELL is President and Lead Portfolio Manager at Roumell Asset Management, LLC. He entered the securities industry in 1986. Before founding the firm in 1998, Roumell was a Registered Principal at Raymond James Financial Services, Inc. He is a graduate of Wayne State University in Detroit, Michigan.

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unless presented with a compelling risk/reward proposition.

Finally, when our target is met, we sell.

What analytical steps involve your research process?

We delve into specific securities, assessing underlying value employing a detailed bottom-up approach while remaining informed about important economic trends. We follow statistics such as employment figures, savings rates, and consumer confidence, but do not consider ourselves macro investors. We believe there's a balance: investors can over-weight macro concerns and miss terrific fundamental security specific situations and they can also ignore certain economic trends, like the persistency of current unemployment rates, and underappreciate macro issues.

In our bond investments we like asset rich companies where we feel we have at least two times asset coverage to the debt. Stock market caps are often at least 50% of enterprise value of our bond investments. In either our stock or bond investments, we search for events in the market, in an industry or in a particular company that depress the publicly traded security price below our estimate of intrinsic value.

Direct visits with companies, their customers and suppliers are often an important and critical part of our process when we are evaluating companies.

Can you give some examples to better illustrate your research process?

Our second largest holding right now is Tecumseh Products Company, TECUA. It is a manufacturer of hermetic compressors for air conditioning and refrigeration products and doing about a \$1 billion in compressor sales. 50% of Tecumseh's business is light commercial refrigeration with an 80-year footprint.

We got interested initially in Tecumseh about five or seven years ago. This is our third time in Tecumseh in the past seven years. In fact, it is not uncommon for us to be serial investors in the same security having developed a deep understanding of the business, its challenges and opportunities always in light of a particular price.

The stock of Tecumseh suffered hard about five years ago and there were some liquidity events wherein a line of credit was not likely to be renewed in Brazil. This development was going to

be pretty significant because Brazil was 40% of the manufacturing footprint for Tecumseh.

One fact we found interesting, and not covered by broker research, was that company had about \$250 million in an overfunded pension. Looking closer, we found that the company was actually going to close down the legacy defined benefit plans.

Moreover, they had bought a small motor business, FASCO, purchased a few of years earlier for \$400 million that we felt was a desirable strategic asset. Further, the company had a big manufacturing plant and excess property in Hyderabad, India and in New Delhi.

Luck struck on this one. Several months later they announced the sale of FASCO for \$225 million and in a matter of days the Tecumseh stock went from \$12, \$13 to \$25 wherein we sold a substantial portion of our position. What ultimately gave us comfort was investment redundancy, i.e. several ways to win.

About three years ago, the Tecumseh stock came all the way back to \$10 wherein we initiated our position, then averaged down at about \$4 in March 2009 and those shares were sold late last year at about \$14.

We were part of the shareholders that helped wrest the company from management and put it back in the hands of the founding Herrick family who had founded the business four generations ago.

It has remained a company with a tremendous amount of top-line stability and part of the reason why the top line is so persistent is because roughly 50% of the business is replacement of worn out commercial compressors. One other interesting aspect of Tecumseh was that their biggest distributor, United Refrigeration, had become roughly a 7% shareholder of the company. We got comfortable with the strength of the replacement side of the business and the strategic interest in the company.

The downside of this security has been that even though they have persistent top line with very strategic assets they are unable to make money. They get pushed around either on commodity or copper or a strong Real in Brazil has hurt them in the past couple of years and they haven't hedged the currency properly. Moreover, during

old management there was a lack of investment in research and development hurting their original equipment market business.

One of the themes here is we don't want to be solely dependent on the stock market. We like the fact that its assets are strategic offering redundancy to our investment: it either becomes profitable or is acquired. We bought it in the second quarter at \$10 and in the recent sell-off when it dropped to \$7. We doubled our position, it is trading at \$8.50 now, which is now in-line with our average cost.

Tecumseh is best described as a very cheap strategic asset, possible monetization event with optionality on its business turning profitable and we were able to acquire the company at 30% to 40% discount to our estimate of intrinsic value.

Another example of a completely different idea is a company called Transact Technologies Inc., TACT. Transact Technologies designs, develops and markets and services transaction printers under the Epic and Ithaca brand names.

We now own 15% of this company although in terms of our assets under management, it represents about 4% to 5%.

We came into TransAct in early 2010 and started buying it around \$6. It is now just under \$10 but peaked at about \$13 a couple of months ago.

This was a \$70 million cap company and debt free, with \$10 million in cash, and cash flow positive when we originated our position. It is a specialty printing company where 50% of the business is in the casino vertical wherein it is one of two companies that supplies the printer that goes inside a slot machine. Five years ago all the slot machines converted from coin to ticket-in and ticket-out.

What is interesting about this business is that it's a duopoly. TransAct and another company FutureLogic has about 98% of the market share in North America and in the world.

Some interesting facts about TransAct. First, two-thirds of TransAct's casino business is now international where gaming is on a strong growth trajectory. We think it is a secular growth story in international gaming, not just in Macau but in Singapore, Italy and Greece with those countries' adoption of VLT (video lottery terminals).

Second, there is a replacement cycle in North

America that will eventually kick-in though the timing is difficult to predict. Traditionally, the slot floor was changed over about every five years, or about 20% a year versus the current rate of about 5%. There are roughly one million slots in North America and if we get to 10%, then we are talking about 100,000 annual slot sales. Again, this is just replacement from what is now a current run rate of about 50,000.

Third, we believe TransAct is well positioned to take share from FutureLogic, its competitor, given its superior investments in R & D. When Transact reported second quarter earnings a few weeks ago, they announced market share gains for the 5th consecutive quarter. They announced 14% year-over-year growth in their North American slot business all from unit growth and this is in a market in which the slot makers business is flat year-over-year.

Finally, in its gaming business vertical, TransAct has a large opportunity in its new advanced couponing product that will create a recurring software licensing and maintenance revenue stream and thus move it away from being a straight hardware company. The company's new EpicCentral serving gaming product allows the casino to network its slot machines and design coupons on the back of the player's ticket enabling more interactivity with the player.

The company's EpicCentral opportunity sits on top of the domestic replacement cycle, market share gains and international growth narratives providing real investment redundancy.

TransAct isn't just a company serving the gaming industry. The company received a contract about two years ago with McDonald's to provide their coffee bars with transaction printers for 5,000 locations. McDonalds was sufficiently happy with the results that they came back one year later and decided to put TransAct's printers on the grill and rolled it out in 11,000 stores (5 printers per store).

TransAct is a very small innovative company, constantly innovating, having huge positive secular growth trends in gaming and in the process of being converted to a software company. This is a classic example of a company not found in a traditional deep value portfolio.

We like it because it is well capitalized and possesses a very big growth engine that is sitting on top of a very stable company that we are paying a very fair price for itself while holding large optionality.

In addition to smaller, off-the-beaten-path ideas like Tecumseh and TransAct, we will buy out-of-favor blue chip companies. We recently sold our Cisco stake on this thesis given our increasing concerns about GDP growth (both domestic and international). However, we retain investments in Hewlett Packard and Merck based on this investment thesis.

How do you construct your portfolio?

In terms of portfolio construction higher yielding corporate debt comprises about 30% of our portfolio, equities about 50% and we hold 20% in cash. Our equities are unlevered, and our debt positions are typically buttressed by hard assets.


The portfolio is split between debt, opportunistic equity, highly levered toward smaller situations where we can add information and analytic edge and a smaller bucket reserved for taking advantage of when the market loses its senses on company-specific or industry-specific risks that get overblown.

We do not consider ourselves hugely concentrated. No position size in the portfolio exceeds 7%, in very rare cases have we gone up to 9%. So, between 5% and 7% is a pretty full position for us and we have many 3% positions as well.

We do not want to be involved in debt workouts. We only buy debt that we think is money good and we do not do distressed debt investing. We are primarily focused on debt paying roughly 7% to 10% currently.

In the equity portfolio, 70% of the equity portfolio is off the beaten track, lightly covered, if at all covered where we can really add value through an informational and analytical edge. However, 30% of the portfolio is invested in extremely well capitalized and deeply out of favor big liquid blue chips.

How do you manage risk?

Extreme price consciousness is the fundamental way that we manage risk, be it market risk, economic risk, company-specific security risk, or industry risk. Fundamentally, we are not overly concerned with market trading risk, but rather in the persistency of fundamental business value, either as it pertains to a going-concern or a monetization investment narrative. Additionally, we believe remaining opportunistic requires us to retain cash and will do so – for extended periods – in the absence of compelling investment stories. 

Roumell Opportunistic Value Fund

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Important Mutual Fund Disclosures

An investor should consider the investment objectives, risks, and charges and expenses of the Fund before investing. The prospectus contains this and other information about the Fund. A copy of the prospectus is available at www.roumellfund.com or by calling Shareholder Services at 800-773-3863. The prospectus should be read carefully before investing.

An investment in the Fund is subject to investment risks, including the possible loss of some or the entire principal amount invested. There can be no assurance that the Fund will be successful in meeting its investment objective. Investment in the Fund is also subject to the following risks: market risk, opportunistic investment strategy risk, sector risk, non-diversified fund risk, portfolio turnover risk, investment advisor risk, new fund risk, currency risk, political/economic risk, small-cap and mid-cap securities risk, micro-cap securities risk, foreign securities risk, interest rate and credit risk, maturity risk, inflation risk, investment-grade securities risk, lower rated securities or junk bonds risk, municipal securities risk, REITs risk, and risks of investing in corporate debt securities and markets. More information about these risks can be found in the Fund's prospectus.

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