

## Target Sector Prioritization Process

Traditionally most investors and investment firms have had limited exposure to the commodity, agricultural, food, and green energy (CAFÉ) sectors. One unique characteristic of these sectors is their tendency to have many subsectors that are actually negatively correlated with one another. For example, high corn prices are great for seed corn and nitrogen fertilizer suppliers but can significantly hurt hog producers and ethanol plants.

Finding the best opportunities to invest in the CAFÉ sectors requires understanding how each of these factors is impacting the market and targeting sectors with a positive secular *and* cyclical environment:

Factor	Rationale
1. Secular	Many sectors (such as green energy or natural foods) are in a long term growth pattern (tailwinds) driven by macro trends, while others (such as high use rate pesticides) are becoming progressively less attractive (headwinds).
2. Cyclical	Many sectors are very cyclical, characterized by periodic overproduction (and low prices) and underproduction (and high prices). These cyclical changes can be caused by natural phenomena (bad weather, pest infestations or diseases) or business decisions (overexpansion, underinvestment). The reason commodity ETFs and some ag funds have been such poor investment vehicles is that investors ignored cyclicality.
3. Government	In addition to direct government subsidies for farm programs, some sectors (such as food safety) can have the implicit backing of the government and enjoy greater interest and investment than they would otherwise attract.
4. Fragmentation	Sectors that are largely consolidated or completely fragmented offer fewer strategic exit possibilities. The ideal sector is 50% controlled by 4-6 larger players and 50% fragmented, offering opportunities for expansion through acquisition along with strategic exit partners.
5. Public/Private Mix	Sectors dominated by public companies present fewer possibilities, while the best opportunities are in private companies. Enthusiasm for these sectors will drive easy-to-invest-in public valuations much higher early in the inflationary cycle.
6. Maturity	Extremely mature sectors with 80% or more of the products off patent are far less attractive than maturing industries where 30-60% of products are off patent and new alliances and alignments are being formed.
7. Leverage	Some sectors are inherently more highly leveraged to an inflationary environment (e.g. production assets or green energy) while others are more insulated from this direct impact (e.g. food safety improvements). We prefer second derivative leverage as these sectors get the general benefits of inflationary trends without the volatility of first derivative leverage.

MacroGain Partners has developed a proprietary system for targeting those sectors most likely to provide the best opportunities for capital appreciation across the CAFÉ sectors. This model will be constantly updated to reflect cyclical changes in the industry and opportunities created by emerging technology or macro trends.

In addition to economic or structural models, our model also includes an analysis of where our network of Sector Partners (See About Us) has the deepest strategic understanding and contact base. This allows us to not only know *where* to go, but often we will know *who* to call and *what* to do with the business.