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One of the challenges of traditional deep value investing is not knowing whether market price and fair value will converge during one's investment time horizon. At Black Crane, we use our corporate finance expertise to identify and/or create events that close the valuation gap.

The Black Crane approach involves being prepared to go the journey with the companies in which we invest. We always invest in companies with solid assets and/or businesses; however, we typically invest at times of significant uncertainty, when negative events have significantly depressed a company's share price and traditional investors have 'headed for the hills'.

To take such contrarian positions requires conviction in one's research and emotional strength to withstand the negative noise that surrounds such situations. *In fact, the best opportunities to make outstanding returns arise when stock prices fall significantly post our initial investment*. It is at this point that our conviction is most tested. Are we prepared to follow our research and invest further at lower prices including providing primary capital?

When entering an investment that has the potential for significant short-term drawdowns, we reserve capacity to invest more, enabling us to be opportunistic in tough and uncertain times during the life of the investment. This is a key element of our strategy and has significantly added to our returns over time.

Executing such a strategy requires us to have investors who understand our approach and who are prepared to go the journey with us.

An example of this approach is our investment in Elders hybrid securities. Post investment the price of the hybrids fell from approximately $30 to a low point of $8.50. We reduced our average entry price to $22. The NAV of the fund declined 8% during this period. The decline in the price was due to interim events that were perceived by the market to be very negative. Drought conditions extended for a second year and the sale process for the core business was not successful. In our judgment based on our extensive research, these were temporary setbacks and not permanent impairments to our investment thesis.

A critical element to maintaining a strong state of mind during such periods is the depth and quality of the research performed up front, prior to investment. As part of this, it's essential to have role played potential negative scenarios: How would you feel if this happened? What would be the effect on value? What would your response be?

In the case of Elders, the response was to buy more hybrids, decreasing our average entry price and increasing our negotiating leverage with the company as our position increased from 15% of the hybrids on issue to 30%.

Six months after this low point, the rains returned, management invigorated by their continued independence reduced overheads and restored the business to health. A further 18 months later, the company acquired all our hybrids at $95. Black Crane made more than four times its money and the position turned around from negative 8% attribution to fund NAV to positive 44%.

Black Crane has a highly concentrated portfolio of 6-8 investments. This allows us to know our positions intimately and to have the mental capacity to deal with tough situations should they arise. We focus on solid quality businesses and assets so the fundamental risk of the strategy is low.  Whilst the concentrated portfolio can result in lumpy returns in the short term – making strong underlying conviction essential – returns are reliably positive over our investment period.

The human psyche likes consistent month on month returns and emotionally processes mark to market losses as real losses, notwithstanding the logic that they are not. Being prepared to be highly concentrated and to weather short-term drawdowns leads to superior risk adjusted returns. In essence, we are taking a private equity approach to listed investments.

Due to the emotional challenges of investing this way, we see little competition for the opportunities we pursue. Consequently, Black Crane's corporate finance approach generates superior, uncorrelated returns with relatively low levels of fundamental risk.