

The Horizon Kinetics ISE Wealth Indexes

Let the Wealthy Work for You™



What are the Horizon Kinetics ISE Wealth Indexes?

The Horizon Kinetics ISE Wealth Indexes are **unique, passive indexes that track the investment performance of public companies managed by the wealthiest people in the world.** Through a partnership with the International Securities Exchange (one of the largest U.S. electronic options exchanges, and wholly owned by Deutsche Boerse), Horizon Kinetics has developed three indexes that track the shareholder value-creating abilities of the world’s most successful entrepreneurs: Horizon Kinetics ISE Wealth Index (Bloomberg Ticker: RCH Index), Horizon Kinetics ISE Asia Ex-Japan Wealth Index (Bloomberg Ticker: WEALTHAX Index), Horizon Kinetics ISE Global Wealth Index (Bloomberg Ticker: WEALTHGL Index), and Horizon Kinetics ISE International Wealth Index (Bloomberg Ticker: INW Index).

These indexes were designed and premised on the belief that, ordinarily, access to professional investors and successful entrepreneurs of this caliber is not readily available to the average person; however, by investing in a compilation of publicly-traded companies that are managed and/or controlled by the wealthiest individuals in the world, exposure to the superior investment capabilities of these entrepreneurs may be obtained. Importantly, inherent in this strategy is a unique form of risk management: one can easily monitor the manner in which these investors have positioned their own capital at almost any point in time. By following their investment posture, one of the greatest uncertainties involved in stock investing (i.e., when to buy and sell) can be partially alleviated – *if the Warren Buffetts of the world aren’t selling, neither need you.*

SAMPLE WEALTH INDEX CONSTITUENTS

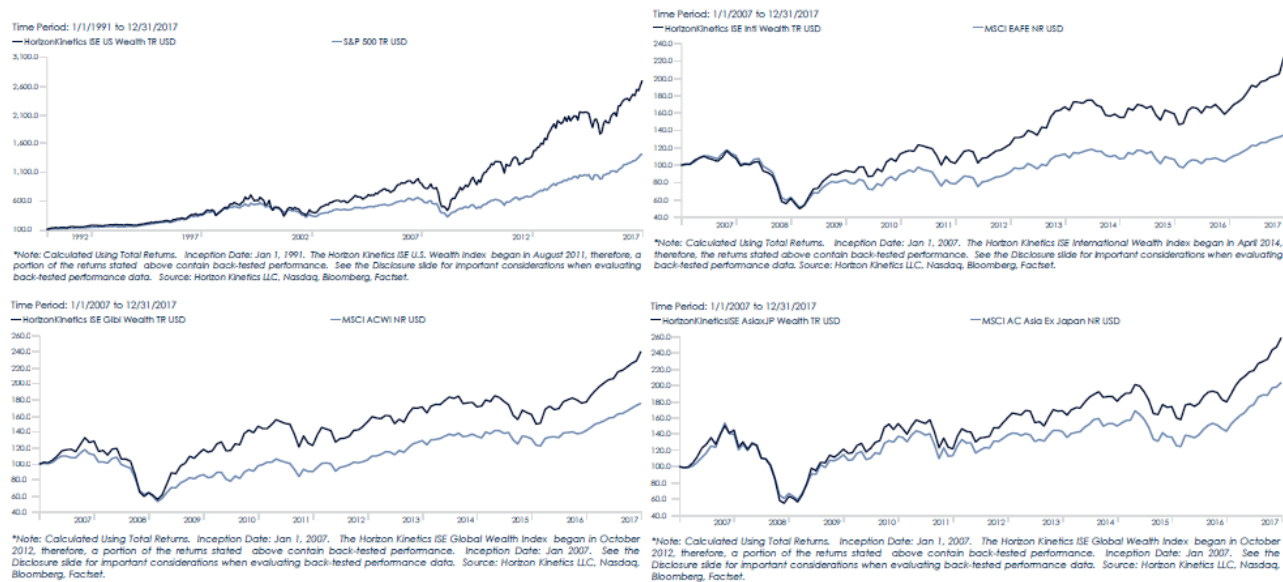
Company	Individual	Owner-Operator Country Origin
Berkshire Hathaway, Inc.	Warren Buffett	U.S.
Bollore SA	Vincent Bollore	France
SJM Holdings Ltd.	Angela Leong	Hong Kong
Compagnie Financiere Richemont SA	Johann Rupert	South Africa
Genting Singapore PLC	Lim Kok Thay	Singapore
Fortescue Metals Group Ltd	Andrew Forrest	Australia
Groupe Bruxelles Lambert SA	Albert Frere	Belgium
Henderson Land Development	Lee Shau Kee	Hong Kong
Hennes & Mauritz AB	Stefan Persson	Sweden
Banco Santander	Juan-Miguel Villar Mir	Spain
Transocean Ltd.	Carl Icahn	U.S.
CommerceHub Inc	John Malone	U.S.
LVMH Moet Hennessy Louis Vuitton	Bernard Arnault	France
Noble Group Ltd	Richard Elman	Singapore
Onex Corp	Gerald Schwartz	Canada
Israel Chemicals Ltd.	Idan Ofer	Israel
Unicharm Corp.	Keiichiro Takahara	Japan
Noble Group	Richard Samuel Elman	Singapore

As of 3/31/2018

Do These Companies Outperform the Market Over Time?

The historic outperformance of these companies has been an area of enduring interest for Horizon Kinetics. Through years of research report generation and the implementation of an owner-operator strategy in various client accounts, we have found that CEOs with a significant vested interest (i.e., personal capital at risk) in their companies generally produce above average returns for their shareholders.

We believe our suite of Wealth Indexes is a formal validation of this concept. Specific to the United States, as measured during the 1991-2017 time period, the Horizon Kinetics ISE Wealth index has demonstrated that such companies outperform the market by a wide margin. Outside of North America, the International Wealth Index has also outperformed its relevant benchmark over multiple time periods. These results are provided in the table below.



To confirm our performance findings, there is also a large body of academic research that supports the Wealth Index concept. In one such study, Shulman and Noyes (2012)¹ examined the historical stock price performance of companies managed by the world’s billionaires. The results were very impressive: the index of billionaire-led companies outperformed the S&P 500 Index by over 700 basis points annually during the period of study. This is substantially similar to the result produced by the Horizon Kinetics ISE Wealth Index.

Why Do These Companies Generate Superior Returns for Shareholders?

Founders who remain with their companies in the capacity of CEO or other controlling position, such as Chairman of the Board, often tend to be the largest shareholders. Their wealth is generally not created through extravagant compensation packages, which can lead to managing for the short-term. Rather, their wealth is generated and, importantly, sustained through an expanding share price over a long-term time horizon. This concept is intuitive, yet it is apparently not well appreciated by many investment managers. Although short-term price appreciation can result from any number of unsustainable tactics, long-term appreciation must ultimately be supported by a commensurate level of non-dilutive return on capital (i.e., including the Wealth Index member’s own capital), as might be measured by book value per share growth.

Observance of the corporate behavior of these companies will reveal that activities such as acquisitions and general reinvestment in the growth of the firm differ markedly from those of the average company. As merely one example, acquisitions are often made opportunistically during periods of market stress – periods when most companies are building cash balances to maintain acceptable credit ratings or to preserve liquidity. An abundance of academic literature confirms this unconventional behavior.

¹ Shulman, J.M. and Noyes, E. “The Rich Get Richer and So Can You: Investing in a Billionaires’ Index” *The Journal of Index Investing*, Spring 2012, pp. 12-32

For instance, Fahlenbrach (2009)² concluded that **founder-led CEOs often invested more in R&D and capital expenditures than did the agent-operated company**. Additionally, mergers and acquisitions tended to be focused on expanding intrinsic and shareholder value rather than on a sometimes common feature of non-founder led companies: empire building through unnecessary and potentially value-destroying acquisitions.

Similarly, McVey and Draho (2005)³ found that **companies controlled by families are “long-term investors with substantial wealth at risk.”** Since wealthy families that control publicly-traded companies usually focus on growing and managing their wealth – which typically is passed on to future generations – these CEOs have been found to avoid quarterly earnings guidance and, rather, emphasize long-term value creation. Specifically, family-owned companies were shown to possess above-average managerial talent and access to strategic business relationships. Unsurprisingly, these companies outperformed non-family-controlled companies in this particular study.

Nassim Nicholas Taleb and Constantine Sandis⁴ wrote that “The idea of **skin in the game** when involving others in tail risk exposures is crucial for the well-functioning of a complex world. In an opaque system fraught with unpredictability, there is, alas, an incentive and easy opportunity for operators to hide risk: to benefit from the upside when things go well without ever paying for the downside when one's luck runs out.”

For additional information regarding the Horizon Kinetics ISE Wealth Indices visit www.horizonkinetics.com r www.wealth-index.com

Important Disclosures:

Certain returns quoted herein contain Back-tested performance information. Back-tested performance is hypothetical (it does not reflect trading in actual accounts) and is provided for informational purposes to indicate historical performance had the index been available over the relevant period. Actual performance may be materially lower than that of the index, as it does not include expenses or fees. Such results do not represent the impact that material economic and market factors might have on an investment adviser's decision making process if the adviser were actually managing client money. Back-tested performance also differs from actual performance because it is achieved through the retroactive application of portfolios designed with the benefit of hindsight.

Horizon Kinetics ISE Wealth Index, Horizon Kinetics ISE Global Wealth Index, Horizon Kinetics ISE Asia Ex-Japan Wealth Index, and Horizon Kinetics ISE International Wealth Index (the “Indexes”) were created in conjunction with the International Securities Exchange, LLC (“ISE”), which operates a leading U.S. options exchange and offers option trading on over 2,000 underlying equity, ETF, index, and FX products. Any returns or performance provided in this presentation is provided for illustrative purposes only and does not demonstrate actual performance. Past performance is not a guarantee of future investment results. It is not possible to invest directly in an Index. Exposure to the Indexes is only available through investable instruments. Horizon Kinetics, its subsidiaries and ISE may receive compensation in connection with licensing the Indexes to third parties. Horizon Kinetics or its subsidiaries may sponsor, endorse, sell, promote or manage investment funds or other vehicles that seek to provide an investment return based on the returns of the Indexes. There is no assurance that investment products based on the Indexes will accurately

² Fahlenbrach, R. “Founder-CEOs, Investment Decisions, and Stock Market Performance.” *Journal of Financial & Quantitative Analysis*, Vol. 44, No. 2 (2009), pp. 439-466

³ McVey, H. and J. Draho. “U.S. Family-Run Companies-They May Be Better Than You Think.” *Journal of Applied Corporate Finance*, Vol. 17, No. 4 (2005), pp. 134-143

⁴ Nassim Nicholas Taleb and Constantine Sandis. “The Skin In The Game Heuristic for Protection Against Tail Events.” *Review of Behavioral Economics*, 2014, 1: pp 1–21

track Index performance or provide positive investment returns.

References to market or composite indices, benchmarks or other measures of relative market performance (a "Benchmark") over a specific period are provided for your information only. Reference to a Benchmark may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, correlation, concentrations, volatility, or tracking error targets, all of which are subject to change over time. The S&P 500 Index is property of Standard & Poor's. Horizon Kinetics generally employs the same methodology in its back-test calculations as it does when the actual Index was officially launched. Anyone interested in better understanding the methodology for the Index, including details on the manner in which the Index is rebalanced, the timing of such rebalancing, the criteria used in determining additions and deletions to the Index as well as other Index calculations may contact Horizon Kinetics at info@horizonkinetics.com or (646) 495-7333.

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