NEPSIS®
INVEST WITH CLARITY®

It's All About Clarity®

Nepsis Q&A

1. What is "Nepsis" and why is it so important to the company?

Nepsis is a Greek word that means "to be watchful, alert and vigilant; with a clear and sober mind against illusions and fear." In short, Nepsis is clarity.

- **Clarity in your thinking**
- **Clarity in your investments**
- **Clarity in your money management**
- **Clarity in your life**

We provide the financial research, information, portfolio management and analysis needed to help you Invest With Clarity®.

2. What is Nepsis, Inc.?

Nepsis, Inc. is a portfolio management firm driven by a passion to share its time-tested investment model with investors to help them achieve their visions and investment goals. We want to help you make sound investment decisions. One of the major issues that affect many investors is a lack of investment clarity. Many investors simply don't know what they own in their portfolios. They don't know why they own the investments and they certainly don't have any idea whether they should sell a particular investment or buy more of it when appropriate. Thus, it is impossible for them to see the "big picture" as it relates to investing and its impact on their portfolios. However, with proper investing clarity, goals and objectives are more readily defined and achieved, emotions and the devastating effects of second-guessing are tamed, and risk is more effectively managed.

3. Why is Clarity at the core of your investment message?

Success in investing, as in life, is the result of absolute clarity – the zenith of our ***Four Key Components to Successful Investing.*** **Clarity** demands honesty and competence. At Nepsis, we believe that in order to trust your wealth with an advisor, you must have an investment strategy that you can understand. Our commitment to transparency allows the investor to fully understand what they own and why, bringing them to complete clarity in their investment.

4. What is the Nepsis investment approach?

First, our investment process starts with the foundation of what we refer to as ***The Four Key Components to Successful Investing*** -- **Philosophy, Strategy, Flexibility and Transparency.** We believe that there are many investment styles managers use to manage assets. Additionally, we believe that investment styles go in and out of favor over SHORT periods of time. However, we also know that the one investment process that has provided the greatest amount of wealth has been the process of investing in a business or businesses OVER TIME (being a business owner). Just as business owners strategically invest in their companies over time, Nepsis believes in the same process. This would coincide with the Jeremy Siegel theory, which states that the longer you own stocks (or as we prefer to say, companies), the less risky they become.

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5. What is Strategic Cost Averaging® (SCA) and why is it important?

Unlike Dollar Cost Averaging (DCA), which is the process of investing a fixed amount on a regular schedule, Strategic Cost Averaging® (SCA) is the process of continually investing unequal dollar amounts specifically targeted into companies we want to own more of when appropriate. SCA allows the **flexibility** needed to take advantage of buying more of a company you want to own when it is on sale. This is why stock market volatility – or more importantly, **stock volatility** – is so **crucial** in the investment process on a long-term basis.

6. How is Nepsis, Inc. different from other asset management firms?

Nepsis, Inc. is a portfolio management firm driven by a passion to share its time-tested investment and business model to empower clients in achieving their visions and investment goals. While many other firms are dedicated to one specific style of investing, we deliver customized, proactively monitored portfolio management and intelligent diversification with investment clarity using ***The Four Key Components to Successful Investing*** -- **Philosophy, Strategy, Flexibility and Transparency**

Our belief in **Flexibility and Transparency** is what puts us ahead of the competition. Flexibility allows us to respond to market volatility and market uncertainty, providing us the opportunity to "Strategically Cost Average®"; taking advantage of market opportunities in a timely and cost-effective manner. Our active portfolio management allows for changes in the portfolio, based on unforeseen changes in the economy and/or businesses owned. In addition, our clients have the ability to monitor their own portfolios activity. Nepsis does not custody any securities.

7. Why do you use a Separately Managed Account structure (SMA) as opposed to a mutual fund?

We believe in the power of owning quality companies. Our portfolios contain 25-35 quality companies in select sectors that have been identified as quality businesses we want to own. The Separately Managed Account structure (SMA) provides the **flexibility** and **transparency** needed to stay true to our philosophy. Through extensive research, we identify companies that have the potential for growth and acceptable returns relative to investment risk. We also favor companies that have demonstrated a consistent track-record of offering a dividend.

Mutual Fund based account structure is too rigid and over-diversifies the portfolio. You end up owning hundreds, if not thousands of companies — even seasoned financial professionals are challenged to understand all the fundamentals and dynamics that exist between that many companies. Additionally, the Mutual Fund based structure lacks the **flexibility** needed to selectively change the components within the portfolio. The Separately Managed Account structure provides the **transparency** needed to know what you own and why you own it. It also provides the **flexibility** needed to customize portfolio construction and make adjustments in the portfolio when changes in market conditions or the management of the companies we own occur.

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8. What is your sell discipline?

While we approach investing from a long-term perspective, certain factors or conditions may occur that cause us to reconsider our position with a company or sector. These factors may be related to the general economy, the fundamentals and management of the company in question, or socio-politics among others.

Nepsis' Four Sell Discipline

- **The long-term fundamentals of the company or sector have changed.**
- **A potentially better opportunity has risen.**
- **Selling a portion of a position to lock in gains and/or r ebalance portfolio.**
- **Tax management - "harvesting" for future gains or offsetting current gains.**

Nepsis' outlook on selling ultimately comes down to whether or not the sale will continue to push the company or investor in the right direction.

9. Why do you occasionally buy or sell minimal shares of a company in a portfolio? Does this have any impact on the portfolio?

We call this process, the "Penny Jar Theory". Have you ever had a penny jar? Think back to when you first started collecting those pennies. You started with a few and then gradually watched the pile grow. One day you decided to take the jar to the bank, only to be surprised by how many pennies you had accumulated over time. Investing in companies over time should be viewed in the same manner! It is not any single position in our clients' portfolios that makes up the majority of the portfolio performance. **It is the portfolio allocation that is most important on a long-term basis.**

10. Why have you determined that when you initially invest in a company, 5% is the maximum you will allocate to that company?

Over shorter periods of time, many mutual fund portfolios' performances can be skewed as a result of their over-weighting in one to three particular companies. Although that may help returns short-term, we believe it feeds into the chasing returns mentality of investors. Many investors have no idea how returns are accomplished in their portfolios. We see this as a major hindrance in an investor's ability to be successful longer-term. By investing no more than 5%, the downside risk to a portfolio is limited, assuming worse case scenario for the company. In other words, 5% is the maximum downside risk to the portfolio if the company should go out of business.

11. Why put such focus on the importance of investors *knowing what they own* in their portfolio?

Many studies have shown the lack of success investors have because they either chase returns or try to guess what the stock market is going to do over a certain period of time. As many investors do chase returns, they do not have a clear understanding of how the returns were achieved and how much associated "risk" was taken. Additionally, we believe investors get nervous and either stay out of investing or sell at short-term market bottoms and buy at short-term market tops because they do not know what they own and or why they own it. The more transparency an investor can have with their portfolio (like a business owner), the less likely they are to sell their investments at market bottoms. Instead, they will take advantage of the sale given to them and buy more of the great companies when on sale.

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12. Who makes the decisions on what companies to own for clients?

Nepsis, Inc. has an Investment Policy Committee (IPC) that makes all strategic investment decisions. The IPC makes the investment decisions under the guidelines of the Nepsis Investment **Philosophy** and **Strategy**, which we believe are core elements to the long-term success of an investor's portfolio.

13. Why do you believe stock price volatility is so critical to investor success?

We believe that the market, more importantly a stock's volatility, is what creates the opportunity to buy more of a great company on sale. The problem is that many investors are invested in mutual funds or other types of investments that do not provide the **Flexibility** to take advantage of buying more of a great company when the price is down. Additionally, because many investors also do not have the **Transparency** (know what they own in their portfolio and why), investors view volatility as risk. However, like many business owners, when we know what company or companies we own and why, it provides us the confidence to continually invest in that company over time.

14. Why does Nepsis believe investors should not use benchmarks?

Many investors take a tremendous flight from accomplished active money managers to funds that center around an indexing strategy. We question the "knee-jerk" reaction that many investors have taken to align their portfolios with an index or benchmark… many of which are flawed in their weighting and construction. Just as an investor's ability to time the moves of the market has been disproved over the last 20 years, we believe that an investment strategy focused on indexing is flawed as well. Although the industry is in the process of offering alternative methods to the construction of indexes, a major percentage of indexes are still calculated using a market-capitalization method of weighting.

15. Why doesn't Nepsis publish their portfolio returns?

We don't publish returns because we believe returns are a result of a proper investment **Philosophy** and **Strategy.** We could share returns, but we have found that most investors ask the wrong questions regarding them. The fact of the matter is, unless you understand the risk taken to achieve those returns and how they were achieved, all you are doing is chasing a number. We prefer to have investors focus on client retention and the **Philosophy** and **Strategy** for how portfolios are managed. When they do, they are extremely pleased to have Nepsis as the steward of their resources. Additionally, many investors do not see returns as the most important component of their investment decision. We have found that trust and confidence play a more important role. We believe that with the solid foundation of ***The Four Key Components to Successful Investing,*** investors have the **Clarity** to achieve the investment goals they desire.

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