

April 3, 2018

For the quarter ending March 31, 2018, our investors' equity portfolios declined 2.1%, while the Russell Midcap Value (RMV) and the S&P 500 were down 2.5% and 0.8%, respectively. The decline was broad based with investments in financials (+3%) and health care (-1%) being the most resilient, while energy declined 10%. Market volatility has increased and we used the lower prices as an opportunity to increase several holdings and add a company to the portfolio from our watch list.

Global economic fundamentals continue to improve, inflation remains benign, and interest rates are increasing. Since September 2017, the 10 year Treasury Note rate rose from 2.1% to 2.7%, causing a decline in the interest rate sensitive REITs (-6%) and utilities (-4%). These sectors represent ~25% of the RMV index, while we have no capital exposure to them. During this same time period, our portfolio was up 9.0%, while the RMV was up 5.6%.

In addition to the improving economy, we are seeing substantial benefits from the corporate tax rate reductions. Our companies are using this incremental cash flow to reinvest in their businesses and distribute to shareholders in the form of increased dividends and share repurchases. These capital allocations will enhance their strong fundamentals and increase the long-term value of their businesses. Such actions reinforce our confidence that our investment approach will achieve superior long-term returns. The attached charts demonstrate the solid returns our disciplined investment approach has produced over both the long term and current market cycle.

Paul Pender, our partner and friend for the past sixteen years, will be retiring at the end of June. Paul has been a valued contributor to the success of our investors and firm. We thank him and wish him the very best. As part of our long-term business and succession plan, we have been increasing the depth and strength of the team by adding Matt Weight four years ago and Pete Swanson last year. As a result, our team and culture are strong and committed to our enduring investment approach established 26 years ago.

Thank you for your interest in investing with us and we look forward to visiting with you soon.

Regards, Fred, Paul, Ben, Matt and Pete