

January 2, 2019

Dear Friends,

For the year 2018, our investors' equity portfolios were down 8.2%, while the Russell Midcap Value (RMV) and the S&P 500 were down 12.3% and 4.4%, respectively. Despite this difficult year, our portfolio benefited from solid stock selection in high quality companies with good operating results and attractive valuations. This return pattern is consistent with our mission to preserve and grow our investors' capital. For the quarter ending December 31, 2018, the market drop was sharp and pervasive. Our portfolios were down 16.3%, while the RMV and the S&P 500 were down 15.0% and 13.5%, respectively. Our stock selection was offset by investments in energy and our avoidance of the interest rate sensitive sectors (utilities and REITs). These sectors (~25% of index) benefited from the December decline in interest rates and a flight to safety. We are managing risk by avoiding these sectors because of their high valuation and exposure to rising interest rates. The attached charts demonstrate the solid returns our value approach has produced during the current market cycle and over the long term.

Many attractive investment opportunities have been created by the precipitous market decline which has been driven more by global economic and political uncertainties than fundamentals. Based upon our research and conversations with our companies, we believe business fundamentals remain on solid footing. In the main, our companies continue to be positive about their end market growth and we are confident in their ability to produce strong incremental profits and market share gains. Given the market's disconnect from these fundamentals, valuations are even more attractive than they were a few months ago. We are optimistic about the future returns of our portfolio of companies.

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

Regards,

Ben D. Johnson, CFA | bjohnson@stcapital.com
Fred H. Speece, Jr., CFA | fspeece@stcapital.com
Pete J. Swanson, CFA | pswanson@stcapital.com
Matt J. Weight, CFA | mweight@stcapital.com