January 3, 2018

Dear Friends,

We are pleased to report that our investors' equity portfolios were up 6.6% for the quarter ending December 31, 2017, while the Russell Midcap Value (RMV) and the S&P 500 were up 5.5% and 6.6%, respectively. Investments in consumer staples (+12%) and health care (+11%) led the advance, while technology (+0.5%) lagged. The interest rate sensitive sector (REITs and utilities) lagged (+1.2%) during the quarter. We believe this reflects the growing realization that this sector has significant capital risk to rising interest rates. Our strategy remains to avoid this risk and our portfolios are not invested in the sector, while the RMV has a significant (~25%) exposure.

Our investors had a respectable year (+9.0%) by historic standards, but did not keep up with the momentum driven (particularly technology) RMV (+13.3%) and S&P 500 (+21.8%). This bull market is entering its tenth year, one of the longest in history, and valuations are above average but not excessive. The current investment environment is well suited for active management to add value, much like we have seen in the past. The attached charts demonstrate the solid returns our disciplined investment approach has produced over both the long term and the current market cycle.

Economic fundamentals are improving and inflation remains benign. The Fed has enough confidence in the economy to project three more interest rate increases in 2018. We are encouraged by the potential positive impacts of the corporate tax rate reductions. Our companies have strong free cash flow and high returns on capital and we expect many will have incremental benefits from the lower tax rates. We believe our disciplined and consistent investment approach to managing risk will achieve superior long-term returns.

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