

April 4, 2013

Dear Friends,

The first quarter of 2013 was strong by historic standards and our fellow investors' equity portfolios earned a return of 12.5%. Investments in consumer cyclicals (+23%), consumer staples (+20%), and materials (+19%) performed the best while health care (+8%) and technology (+9%) lagged. For the quarter, the Russell Midcap Value was up 14.2% and the S&P 500 was up 10.6%. Lower quality companies led the market but to a lesser extent than in 2012. While we are pleased with the results for the quarter, our focus is clearly on long-term investing to preserve and grow our clients' capital. The attached table demonstrates the solid returns our disciplined approach has produced for the past 15 years.

Our companies' strong financials are one of their long-term competitive advantages. In this slow-growth economic environment, they are investing aggressively to gain market share and produce superior earnings growth relative to their peers. Product and service innovations are important results of this strategy which create new demand and enhance their pricing power. Our companies are generating ample cash flow to fund these investments while growing their dividends by ~9% annually over the past five years. We are confident in their ability to continue to execute and believe this will generate attractive long-term returns for our fellow investors. As always, **patience and courage** are key elements of successful investing.

We are pleased to report that during the quarter two foundations and three families joined us as investors. Thank you for your interest in investing with us and we look forward to visiting with you soon.

Regards,

Fred, Paul and Ben