January 3, 2014

2013 was a good year as your equity portfolio earned a return of 29.3%. Investments in technology (+46%), materials (+45%) and industrials (+43%) performed the best while energy (+17%) lagged. For the year, the Russell Midcap Value (RMV) and the S&P 500 were up 33.5% and 32.4%, respectively. For the fourth quarter, your equities were up 5.8% while the RMV and S&P 500 were up 8.6% and 10.5%, respectively. Lower quality companies have led the market for the past two years which has been at odds with our focus on investing in high quality companies. The attached table demonstrates the attractive returns our **disciplined** approach has produced over the long term.

The new year brings a challenging investment environment. End market demand has improved modestly but it is inconsistent and has fallen short of expectations. Despite the tepid growth, equity returns for the last two years have been very strong, driven more by multiple expansions than earnings growth. As a result, equity valuations are above their historic averages. Notwithstanding these issues, we are confident that your companies will continue to produce superior operating results and successfully reinvest their free cash flow in growth initiatives. Your companies have grown their dividends by ~10% per year over the past five years which is symbolic of their strong and sustainable cash flow. These superior fundamentals have and will provide stability in a difficult investment environment. As always, **patience and courage** are key elements of successful investing.

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

Regards,

Fred, Paul and Ben