

January 7, 2013

Your Portfolio Review Book for the quarter ending December 31, 2012 is enclosed. During the quarter, our investors' equity portfolios were up 1.2%. Investments in consumer cyclicals (+10%) and industrials (+8%) performed the best, while energy and materials were down 8% and 4%, respectively. The Russell Midcap Value (RMV) was up 3.9% while the S&P 500 was down 0.4%. For the year, their equity portfolios were up 8.3%; however, we did not keep up with the RMV and S&P which were up 18.5% and 16.0%, respectively. The stocks of lower quality companies outperformed those of the higher quality companies in which we invest. In addition, the difference in our relative performance can be attributed to two factors. Throughout the year, we added to positions in natural gas production companies based upon solid, long-term fundamentals and extremely attractive valuations. Despite these valuations, their stocks underperformed due to concerns regarding the short-term supply and demand imbalance of natural gas. Second, in this low interest rate environment, the "rush-for-yield" drove REITs to excessive valuations. As a result, we are not invested in them, keeping our investors out of harm's way. Going forward, we believe these factors will turn positive and enhance our long-term returns.

Our mission is to be good fiduciaries by managing risk to preserve and grow our investors' capital. Taking the longer-term perspective and investing in good cultures and good businesses run by superior management is the foundation for achieving this goal. The table on Page 8 demonstrates the returns our disciplined, fundamental investment approach has produced for our investors over the past 3, 5 and 10 years.

We believe the business and investment environment will continue to be uncertain and frustrating. Despite tepid end market demand, we are confident in our companies' ability to outperform their industries. They generate sustainable free cash flow that is large enough to reinvest for future growth and still distribute to shareholders. In addition, their stocks are attractively priced, the portfolio dividend yield exceeds the 10-year US Treasury yield, and their dividends have grown ~9% annually during the past five years. This combination of strong fundamentals and attractive valuations has served our investors well over the long term. We believe it will be rewarded by the market even more in this slow-growth economy. As always, patience and courage are required for successful investing.

Thank you for your interest in investing with us and we wish you the very best in the New Year.

Regards,

Fred, Ben & Paul

Enclosure