

October 2, 2014

Dear Friends,

For the quarter ending September 30, 2014 our equity portfolios were down 3.5%, while the Russell Midcap Value and the S&P 500 were down 2.7% and up 1.1%, respectively. Investments in consumer cyclicals (+8%) and financials (+1%) performed the best and energy (-27%) and materials (-10%) performed the worst. While the decline in energy stocks is disappointing, we view this as a long-term opportunity because of their attractive valuations relative to their strong free cash flow. For several years, the market has been driven by low-quality and interest rate sensitive companies. However, given their high valuations, we believe this trend is in its final stages. Our focus remains on investing in high-quality companies and the two attached tables demonstrate the attractive returns our disciplined approach has produced over the long term and over the different phases of the current market cycle.

Our portfolio of companies is well positioned for the future and is consistent with our long-term fundamental investment approach. The companies are reasonably valued and we expect them to continue to deliver superior operating results well into the future. Management has been reinvesting their significant free cash flow to expand their company's competitive advantages. Investments in R&D, marketing, IT and logistics have enabled them to produce solid operating margins despite only modest volume growth in end markets. We are optimistic about their potential earnings power when end markets improve. As always, patience and discipline are key elements of successful long-term investing.

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

Regards, Fred, Paul, Ben and Matt