CORBYN INVESTMENT MANAGEMENT, INC.

July 2018

Dear Advisors and Clients:

Market volatility, which surged during the early months of 2018, continued to impact investors during the second quarter. In this volatile market environment, we believe that Corbyn's focus on company-specific fundamentals positively influenced investment results and helped insulate the portfolios from a portion of the market turmoil. Accordingly, we are pleased to report that all Corbyn-managed equity-oriented and fixed income portfolios generated positive performances during the quarter.

Throughout the second quarter, investors responded quickly to daily headline events and the ever-shifting investment landscape. The source of much investor anxiety was the Trump administration's plan to impose tariffs against various trading partners including China, the European Union, Canada and Mexico. Often, these tariff-related headlines were tersely written proposals or tweets that created an atmosphere of uncertainty. Investors had to speculate as to the ultimate details of the plan as they grappled with the likely effects that tariffs might have on global economic growth, certain industries and specific companies. Offsetting the uncertainty surrounding tariffs, the strength and positive momentum of the U.S. economy continued to provide support for the domestic equity markets.

Equities

Despite the frequent and significant swings in investor sentiment, most equity market indices rose during the second quarter, driven by higher corporate earnings and a strong labor market. Even with the market's solid underpinnings, the performances of the various major equity market indices have been quite mixed so far this year. The Dow Jones Industrial Average, while up a little more than 1% for the quarter, remained in negative territory for the year and ended the second quarter off almost 9% from its high set in January. At the same time, the NASDAQ moved higher by over 6% during the quarter, driven by the companies commonly referred to as the FAANG stocks (Facebook, Amazon, Apple, Netflix and Google). However, the fear of tariffs and trade wars also helped boost the Russell 2000 almost 8% for the quarter, as its components include many smaller, more domestically focused companies that are less exposed to international trade concerns. Furthermore, the relative underperformance over the last several years of many smaller-cap equity securities left them attractively valued and investors bid up prices as they sought out these less expensive investments.

Within the Corbyn-managed equity-oriented portfolios, the gains were widespread. Many of the companies in the portfolios reported strong earnings, driven by company-specific initiatives designed to improve profit margins and earnings per share, as well as tax reform and the healthy domestic economy. We remain confident that the companies held in the portfolios remain well-positioned to generate further increases in shareholder value through continued earnings growth and the deployment of cash generated from operations into dividends, share repurchases, investments to expand the existing business, and/or acquisitions designed to improve the companies' strategic positions.

Fixed Income

Our focus on short-duration high yield bonds and stringent credit analysis has allowed us to produce positive returns during this recent period of rising interest rates, a time during which most long-term bond investors have suffered losses. In fact, as we discussed last quarter, we continue to see a lasting benefit to higher rates as most of our recent bond purchases have been executed at higher expected yields to call/maturity than in previous quarters, which should help to drive greater future returns for the fixed income portfolios.

The broader fixed income markets were mixed during the quarter. Fears that inflation may accelerate, a strong labor market and indications that the Federal Reserve would continue to raise short-term interest rates all combined to push rates higher. The yield on the 10-year U.S. Treasury rose for the fourth straight quarter, increasing from 2.74% to 2.85% and temporarily breached the 3% level during May for the first time since early 2014. Later in the quarter, however, trade war concerns pushed rates lower as investors moved back to the perceived safety of government bonds. Given the rising rate environment, most intermediate and long-term investment grade and government bond investors suffered losses during the quarter, with longer-term bonds delivering the largest losses. The negative second quarter results only added to the losses these same investors experienced during the first quarter.

Over the last twelve months, the yield on the 10-year Treasury increased from 2.31% to 2.85%, a move of just over half of one percent. However, because of the low coupon rate, this relatively small half-point move resulted in a negative total return of approximately 2% for an investor who held the bond for the entire year. Most Fed-watchers expect several more increases in short-term rates over the next 18 months. In several of our recent letters, we have discussed the risk of negative returns to longer-term bond investors in a rising interest rate environment. The negative returns experienced recently by long-term bond investors makes the reality of this risk quite apparent and we expect it will become more of a focus for investors going forward. Unlike many fixed-income investors, however, we welcome steadily rising interest rates, as our focus on short-duration securities allows us to reinvest maturing/redeeming securities into ever-higher yielding investments.

We remain committed to our goal of providing steady, risk-adjusted performance over a market cycle across our various equity-oriented and fixed income account strategies. We look forward to reporting on our progress at the end of the third quarter.

Respectfully,

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