CORBYN INVESTMENT MANAGEMENT, INC.

April 2022

Dear Clients and Advisors,

Investors faced growing geopolitical and macroeconomic uncertainties during the first quarter of 2022, triggering a sell-off and substantial volatility within the financial markets. Despite the market turmoil, performance across all Corbyn account strategies was much more stable than the major stock and bond markets and finished only slightly negative for the quarter. Our focus on defensive investments with strong fundamentals and experienced management teams insulated the portfolios from the more significant losses incurred by the major equity and fixed income indices.

The traditional axiom that the financial markets do not like uncertainty clearly held true in the early months of 2022. The rapid spread of the Omicron variant, resulting in the highest infection rates across the country since the pandemic began, sparked concerns of a slowdown in the economic recovery. Just as Omicron fears began to subside amidst evidence that it was far less severe than previous variants, Russia's invasion of Ukraine sent shockwaves through the global markets. International response to the conflict was swift, with many countries imposing harsh sanctions on Russia, which impaired its ability to participate in international trade. The sanctions, combined with disruptions resulting from the war and increasingly restrictive measures in China due to a COVID outbreak in Shanghai, caused energy, food, and many other commodity prices to soar. Inflation, already running at high levels due to COVID's negative impact on production and global supply chains, looked poised to accelerate further. As a result, the Federal Reserve (the "Fed"), which had already outlined plans to gradually remove its highly accommodative COVID-induced monetary policy, became much more aggressive in its guidance for tightening financial conditions. At its March meeting, the Fed raised its target for the federal funds rate by 25 basis points, the first rate increase since 2018. Throughout the quarter, the Fed's narrative continued to get more aggressive with several Fed board members advocating for multiple 50 basis point hikes.

Corbyn portfolios are concentrated in short-duration fixed income securities and equity investments in resilient franchises with strong leadership and capital structures, an approach that should lessen the volatility of our long-term performance. Even so, we are carefully monitoring the heightened level of cross-currents currently influencing both business fundamentals and investor psychology. Our investment team is responding by continually evaluating any potential material impacts, either positive or negative, on existing investments, while searching for situations where market volatility may create attractive new opportunities.

Fixed Income

Corbyn fixed income portfolios significantly outperformed the broader bond indices during the quarter, posting only slightly negative performance. Interest rates moved sharply higher during the quarter, pushing bond prices and all major bond indices down significantly. The Bloomberg U.S. Aggregate Bond Index fell 5.9% and the Bloomberg U.S. Corporate High Yield Bond Index dropped 4.8%. Our focus on short-duration high-yield securities materially insulated the portfolios from the negative effects of rising rates, and we continue to use available cash and proceeds from bond redemptions to redeploy capital at higher yields.

The increasingly hawkish rhetoric from the Fed helped drive Treasury yields higher across the curve. The short end of the curve moved most dramatically, with 2-year Treasury yields tripling from 0.73% at the end of 2021 to 2.33% at quarter end. Over the same period, the yield on the 10-year Treasury increased from 1.51% to 2.34%. This increase in rates had an outsized effect on the prices of many fixed income securities given the high rate of company bond issuance and refinancings over the past several years. Many companies had capitalized on the low-rate environment in recent years by issuing low coupon, longer duration bonds. These bonds were, and are likely to remain, especially vulnerable to higher interest rates as the lower coupon payments provide less of an offset to price declines. Our focus on higher coupon, short-duration securities has helped our portfolios avoid a large portion of these price declines.

The combination of tighter monetary policy and growing macroeconomic and geopolitical uncertainty reinforces our traditionally defensive outlook within the high-yield market. Fortunately, we continue to see good opportunities for new investments in businesses with strong fundamentals, driven by high cash flow and solid market positions. The market sell-off has given us the chance to buy bonds offering higher absolute yields than previous quarters at similar levels of credit quality. To keep the portfolios well-positioned in this environment, we remain focused on short effective duration and continue to take advantage of market volatility to redeploy capital.

Equities

Corbyn equity investments generated slightly negative results during the first quarter, significantly outperforming the major market indices, and with less overall volatility. Our focus on reasonably-valued companies with strong and/or improving fundamentals helped insulate the portfolios from the larger declines experienced by more speculative high-growth areas of the market, such as the Nasdaq Composite Index, which dropped 9%. Overall, companies in the portfolios posted strong earnings for 2021 with encouraging and/or better than expected outlooks for the current year, underpinned by strong customer demand, company-specific initiatives, and/or accretive capital deployment opportunities.

Rising interest rates, the war in Ukraine, and China's zero-COVID policy with resulting lockdowns in economically-critical regions will undoubtedly affect virtually every company to some degree, but some much more than others. By prioritizing investments in attractively-priced companies with market-leading franchises that benefit from positive secular tailwinds, we should be able to limit the portfolios' exposure to the deleterious impacts of these issues. In addition, companies with solid balance sheets and strong cash flow have the flexibility to create additional shareholder value during periods of turmoil, while their less financially robust competitors struggle. Stronger companies can invest to expand competitive advantages, make acquisitions, increase dividends, and repurchase shares. We firmly believe in these core characteristics as these types of companies typically weather periods of uncertainty more successfully over the long term, emerging in stronger relative competitive positions.

We appreciate your confidence during what was a very eventful start to the year! Please contact us at any time to review your investment portfolio or discuss any of the topics raised in our commentary.

Respectfully,

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President, Portfolio Manager
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