July 2019

Dear Clients and Advisors:

Corbyn accounts, whether fixed income or equity-oriented in nature, generated positive returns during the second quarter of 2019. Fixed income accounts generated yet another steady gain while accounts more heavily weighted toward equities experienced even better returns. During the quarter, the broad equity and fixed income markets also generated gains as markets continued to climb higher despite many negative headlines that often dominated the financial news.

During the quarter, investors' attention was focused on the potential economic fallout from the U.S.-China trade dispute and whether the Federal Reserve ("Fed") would signal an intention to cut interest rates in the near future. Ultimately, these two issues became linked as global economic activity continued to slow which many financial commentators, economists and investors blamed on the simmering trade dispute. Federal Reserve Chairman Jerome Powell signaled that the Fed was closely monitoring the recent escalation in trade tensions and indicated it could respond by cutting rates if the economic outlook deteriorated. Additionally, various members of the Fed expressed frustration that inflation remained below its target, adding more fuel to the notion that a rate cut was forthcoming. By June, the question seemed to become not if, but when, and how aggressively, the Fed would cut rates in an effort to ward off any further economic weakness and bolster confidence. Now, in early July, that sentiment seems to have faded a bit as a better than expected employment report suggested that the domestic economy may be stronger than originally thought.

Equities

Corbyn equity-oriented accounts generated gains in the second quarter adding to the robust gains of the first quarter to show very strong year-to-date performances. The broader equity markets experienced significant volatility, especially in May, but ended higher for the quarter, continuing the rally that followed the sharp sell-off that occurred in late 2018.

Equity markets incorporate a number of forward-looking assumptions and, at least in the short term, can be quite sensitive to world events. News travels exceptionally fast these days, creating volatility in the markets as investors quickly factor these news events into the valuation of public companies. The second quarter had more than its fair share of worrisome news reports about global economic activity coming in below expectations and the continued "on again, off again" nature of the U.S.-China trade negotiations. In an environment such as this, we would not have been surprised to see the market pause or even sell off in a more sustained fashion than it did. Instead, the market pushed higher and continued to climb "the wall of worry," a time-tested Wall Street idiom that explains the tendency of the market to move higher even when confronted with potentially unfavorable events, as investors hold onto the belief that these events will ultimately be resolved favorably.

Many investors, and certainly value investors such as Corbyn, often hold concerns that adverse conditions may bring a market downturn given the prolonged tenure of the current advance. Although we do spend time studying and debating the potential for such a development, it can be difficult to predict which events will inflict temporary market turmoil as opposed to events that may have tangible and enduring impacts on

the fundamental performance of businesses. Over the last few decades, we have experienced a number of macroeconomic events (some predictable although difficult to time correctly, some not) that have caused severe market downturns. As we write this letter today, we are certain that we will see more of these market-moving events in the future but "when" is the question that so many pundits attempt to predict with varying degrees of accuracy. What we have learned through our decades of experience, and discussed in many prior letters, is the importance of maintaining a disciplined long-term investment strategy focused on investing in financially strong companies that have deep and strong management teams, generate free cash flow, are strategic with regard to their capital allocation decisions and are positioned to thrive in a variety of economic conditions. A portfolio of such companies is not immune from economic and/or market-wide downturns, but these companies are often able to use such developments to enhance their long-term market positions at the expense of weaker competitors by reinvestment or acquiring valuable assets for bargain prices.

Fixed Income

The fixed income markets also rallied during the quarter and Corbyn's fixed income accounts had another consistent showing, adding to the gains achieved during the first quarter. As the quarter progressed, U.S. Treasury prices rallied, pushing the yields on short-, mid- and long-term Treasury securities lower. Longer-term fixed income securities had the highest total returns in this environment as the prices of these securities are far more sensitive to movements in interest rates.

The recent decline in interest rates is a sharp reversal from last year when the yield on the 10-year U.S. Treasury rose to 3% and investors in longer-dated fixed income securities suffered significant losses. At that time, many investors predicted that rates would continue to slowly move higher, driven by accelerating inflation, a strong labor market and signs that the Fed would continue to raise short-term rates. Investors now seem to be anticipating a slower growth, lower inflation environment, and the Fed has changed its body language, recently indicating a more open-minded view towards possibly lowering short-term rates. Changes in the Federal Reserve outlook, or the markets' expectations for such changes, can happen quickly, reinforcing why we believe in an interest rate "agnostic" approach. By constructing bond portfolios that are designed to generate consistent returns and be less sensitive to price swings driven by interest rate moves, we allow for clients and advisors to utilize our strategy as a *lower volatility* allocation in their portfolios.

Irrespective of the direction of interest rates or the economy, we believe that company-focused research and individual security selection is the best recipe for constructing bond portfolios designed to achieve specific goals. The value proposition that differentiates our active management from a passive or index-based approach is our ability to carefully research potential bond investments and purchase only those securities that we believe satisfy the desired yield and risk parameters for a particular portfolio. Having the ability to buy only those securities that meet our investment criteria, and not be forced to buy or continue to hold a security that we are uncomfortable with just because it's in a certain "index," is a big advantage for our actively managed approach to bond investing. Index-based funds and exchange traded funds ("ETFs") do not allow investors to control the specific risks in their portfolios as precisely as building a portfolio of individual securities. Rather, they hold a basket of securities within a specific bond rating, yield, or maturity band regardless of the underlying credit quality of the particular bond issue. We feel fortunate that we have created a platform to deliver a more customized portfolio approach for our clients, efficiently and with transparency.

Continually surveying the economic landscape, performing research and making a determination of how an investment may perform in a wide range of economic conditions is an important aspect of managing both equity and fixed income client portfolios. As we move further from the financial crisis that sparked the severe global recessionary period of 2007-08, others' memories of the risks associated with those trying

times has, naturally, begun to fade. Since the financial crisis, the United States has experienced the longest economic expansion in its history, although a relatively muted one. This long period of expansion has prompted some to embrace a belief that the quantitative easing and proactive interest rate cutting by the Fed has eliminated, or significantly reduced, the potential for future recessions. At the same time, others speculate that these actions by the Fed have caused economic distortions and have only delayed a day of reckoning. We believe that economic cycles are here to stay, but that it is inherently difficult to predict the timing, magnitude or duration of these cycles. We are careful not to dive too deeply into that speculation and believe that our primary role as a conservative asset manager is to understand the overall risk profile of each specific investment, as we apply it to the risk tolerance for each of our clients.

Finally, we believe a critical component to our firm's success is the quality of our employees. Adding a new employee is an exercise that we undertake with much deliberation which has historically resulted in very little turnover. With that backdrop, we are very pleased to announce that George Truppi has joined Corbyn as a fixed income analyst.

George is a CFA® charterholder and graduated Magna Cum Laude with a Bachelor of Science in Finance from Rutgers University. He spent the first 14 years of his career in New York working in the investment banking and asset management industries. George recently left ABN AMRO to move to Baltimore with his wife, Murrey, and join Corbyn. We are thrilled to have George on our team and are excited to have his extensive background and knowledge here at our firm. He has hit the ground running and has been contributing from his first weeks as a Corbyn employee.

Thank you for reading this quarter's thoughts. We remain vigilant and feel that our financial strategy is increasingly important during these volatile market environments. Please feel free to contact us at any time with thoughts or questions.

Respectfully,

Charles vK. Carlson, CFA
President
Co-Chief Investment Officer

Michael J. Fusting, CFA
Senior Vice President
Co-Chief Investment Officer

Michael J. Pulcinella
Head Trader & Investment Analyst

Michael A. Goodman, CFA
Senior Investment Analyst

Free cash flow measures the cash generating capability of a company by adding certain non-cash charges (e.g. depreciation and amortization) to earnings and subtracting recurring capital expenditures.