CORBYN INVESTMENT MANAGEMENT, INC.

October 2020

Dear Clients and Advisors:

Corbyn accounts, both fixed income and equity-oriented, enjoyed strong third quarter performance as many of the companies held in the portfolios participated in the ongoing economic recovery. The third quarter began as the second quarter ended, with financial markets gaining strength, driven by job gains, better-than-expected company earnings results and positive commentaries about the future. However, September brought a sober reminder that the economic recovery would not be linear. Surging COVID-19 cases in many parts of the country and abroad caused investors to pause and step back from the exceptionally strong rally that had propelled the equity markets since the end of March. The inability to pass additional fiscal stimulus measures and fears that the outcome of the Presidential election may be delayed, or even contested, further fueled investor fears. With an abundance of near-term uncertainties, no one should expect the economic recovery to progress in a straight line. We remain focused on longer-term client goals while the country moves toward a renewed sense of normalcy.

Fixed Income

Our bond investments performed as expected with consistent returns, including stable performance during September's broader market volatility. The spread between corporate bond and Treasury yields continued to tighten, reflecting the abundant liquidity supplied to the market by the Federal Reserve (the "Fed") and growing confidence in the economic recovery. We expect this environment to continue in the near term as the Fed has publicly communicated a plan to maintain an accommodative monetary policy for years to come. The federal funds rate is expected to remain at a low level through the next several years, and various asset purchase programs are designed to hold down interest rates and provide the liquidity needed to sustain an economic recovery. The current Fed policies also demonstrate a clear desire to eventually rekindle inflation towards, and perhaps beyond, its long-term target of two percent.

Although the Fed's low interest rate policy is very attractive to those seeking to borrow money, it presents a challenge for investors who are dependent on income from a Treasury bond portfolio, when the yield on the 10-year Treasury remains well below 1%. At Corbyn, we believe that our company-specific credit work enables us to identify corporate bonds that provide much higher yields than Treasuries while maintaining a conservative risk profile.

Furthermore, our focus on short-duration securities provides a measure of protection if the Fed achieves the accelerating inflation it so desires, allowing us to reinvest proceeds of redeemed and matured bonds at potentially higher future yields. Our decades of experience investing in short-duration, high yield corporate bonds provide our clients with a solid core of higher income-producing securities at a time when it appears that yield in more traditional areas of the Treasury and corporate bond markets will be difficult to come by for the foreseeable future.

Equities

Equity performance was quite strong in the third quarter driven by the rebound in economic activity and strong earnings reports from many of the companies in the portfolios. In particular, our investments in the Transportation, Waste Management, Renewable Energy, and Chemical industries performed well, more than offsetting September's correction in the Technology sector. The outlook for these holdings benefited from a loosening of COVID-related restrictions and accelerating growth in e-commerce, home sales, repair and remodeling, and de-carbonization.

We continue to assess both the near and long-term implications of COVID-19 as well as the upcoming elections, seeking to position the portfolios with a strong foundation to benefit from the eventual "new normal." We have maintained and added to investments exposed to broader themes that we believe will continue to accelerate or become more relevant, including digital adoption and modernization, de-urbanization, and renewable energy. In addition, with the Fed focused on keeping a lid on interest rates, we have added to investments in companies with stable earnings and growing dividends that provide investors with an attractive current yield in an increasingly yield-challenged environment.

As the pandemic began to unfold, investments related to the "stay at home" theme such as e-commerce, home improvement, furnishings and home entertainment did exceptionally well as consumers went into lock-down mode. As anxieties ease, we are confident that investors will get back to a more normal evaluation of the economy and seek investments in companies with experienced management teams, strong capital structures, and solid free cash flow that are well positioned to adapt and prosper.

This year has been, and is likely to remain, exceedingly unpredictable and full of twists and turns. The phrase "unprecedented times" has dominated the narrative with COVID-19, the on-again/off-again fiscal stimulus negotiations, civil unrest, and a rancorous election process all causing emotions to run high. However, as we force ourselves to step back from the 24-hour news cycle, we are reminded that we have experienced and managed through other "unprecedented" times over Corbyn's long history. Within just the last twenty years, we've witnessed the September 11, 2001 terrorist attacks that caused great anxiety to every American and shut down the financial markets for a week, as well as the 2008 collapse of Lehman Brothers during the Great Financial Crisis that brought the financial system to the brink of collapse. Although these traumatic events are now just markers on the market's upward-sloping timeline, they were unsettling and frightening at the time. As we reflect back on these and other events, the common thread that we uncover is that people, companies, and the financial markets have always adapted and recovered from negative shocks whether economic, political, or social.

During these highly unpredictable times, we strongly believe that it is in investors' best interests to stay focused on long-term goals while prudently adapting to the ever-changing landscape and positioning their investments accordingly. At Corbyn, we take this charge for critical thinking to heart and challenge ourselves to continue to consistently ensure that our client portfolios are well positioned for steady long-term growth during this very uncertain period.

Thank you for your trust, and please feel free to call us with your thoughts or questions.

Respectfully,

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