October 2021

Dear Clients and Advisors,

Corbyn accounts performed well during the third quarter despite a resurgence of volatility in both the equity and fixed income markets later in the quarter. The quarter began much like the second quarter ended, with solid performances across most asset classes as the recovery from the COVID pandemic continued to gain steam. As the quarter progressed, however, equities and most bond markets retreated, as investors weighed the potential impact of continued strong demand for goods and services and an improving employment environment against changing monetary and fiscal stimulus expectations, higher inflation, and broad supply chain disruptions. Corbyn-managed fixed income accounts showed positive gains despite the late-quarter surge in interest rates, and equity-oriented accounts remained relatively unchanged, preserving the strong gains achieved during the first half of the year.

Conflicting macroeconomic factors created higher levels of uncertainty regarding expectations for inflation and the Federal Reserve's (the "Fed") monetary policies. At its September meeting, the Federal Open Market Committee indicated that economic conditions may soon warrant a slower pace of asset purchases, and it anticipated a slightly faster path for Federal Funds rate hikes than it had projected in June. While markets widely expected the Fed to begin tapering asset purchases, the potential for a slightly accelerated pace of interest rate increases caused Treasuries to sell off during the second half of the quarter. The 10-year U.S. Treasury yield fell during the first half of the quarter but bounced sharply off its early August lows, moving from 1.17% to 1.52% by the end of September. The upward movement in rates put downward pressure on longer-duration fixed income and equity securities.

While these changing economic factors continue to be a focus of investors, Corbyn's fixed income portfolios remain somewhat insulated from rising interest rates, due to the short duration of the portfolios and defensive individual security selection. During the quarter, fixed income accounts generated steady positive returns despite the pickup in interest rate volatility, performing particularly well in the last two months of the quarter relative to the Bloomberg U.S. Aggregate Bond Index, which fell over one percent. Once again, this performance illustrates the benefits of owning shorter-duration securities during a rising interest rate environment, as higher rates negatively impact the prices of longer-dated securities much more than short-duration securities. Looking ahead, although macroeconomic uncertainty may continue, we remain focused on positioning Corbyn fixed income portfolios to benefit from a potential rising rate environment and look to opportunistically add to higher yielding, defensive positions during periods of volatility.

Equity-oriented accounts largely followed the broader equity markets during the quarter, finishing relatively unchanged, and still significantly positive year to date. Stock prices moved higher at the start of the quarter, propelled by stronger-than-expected corporate earnings reports and expectations of continued robust monetary and fiscal stimulus. After setting record highs in early September, the equity markets reversed course, with major indices losing a significant portion of, or slightly more than, their quarter-to-date gains. This sell-off was driven by a variety of concerns including the impact of the COVID Delta variant on economic growth, the winding down of stimulus checks, supply chain disruptions, and political wrangling over the federal budget, debt ceiling, and infrastructure bill. While market pullbacks are never pleasant, they are often a normal component of a healthy market, particularly after such a prolonged period of upward momentum.

A key challenge currently affecting many businesses across various sectors of the economy are the disruptions of global supply chains and the impact this may have on future inflation and economic growth. Companies are grappling with parts shortages, rising input costs, and difficulties meeting production and/or sales schedules. We can all probably relate to some type of supply chain problem - wondering why our online purchases are arriving late, store shelves look emptier, and/or prices are higher. During the height of the pandemic, many countries greatly restricted their economies with stay-at-home orders, and many companies all over the world reduced inventories to preserve cash amid extreme uncertainty. Complex global supply chains, developed over decades, are extremely intertwined. Products are often made with parts sourced from all over the world and, if one component piece is unavailable, the final good cannot be finished. As a result, a break in the supply chain in one section of the world can cause a ripple effect around the globe. More recently, renewed restrictions and localized shutdowns caused by the COVID Delta variant, as well as lost production from Hurricane Ida, worsened an already existing problem. Furthermore, the rapid change in consumer purchasing behavior and the stronger-than-expected demand recovery caught many companies by surprise, sending them scrambling for the necessary raw materials to manufacture their products. These supply chain issues are further exacerbated by significant delays in shipping due to a limited number of available cargo ships, railcars, and trucks. Consequently, record numbers of loaded cargo ships are sitting in harbors, waiting to be emptied. While the exact duration and impact of the myriad supply chain issues are difficult to predict, it is critical to remember that these problems are caused in large part by pervasive strong demand, a "good" problem to have. As we have witnessed since the pandemic began, businesses have a remarkable ability to adapt to rapidly changing conditions, and many are doing just that by ordering farther in advance, becoming more creative with shipping methods, and adjusting prices to preserve long-term profitability.

When evaluating bond and equity investments, many of our long held, core investment principles should help to insulate companies held in the portfolios from some of these near-term challenges. Strong balance sheets and free cash flow generation allow companies to better absorb unforeseen events such as the supply chain issues now rampant in the world, when compared with companies that have little room for error due to leveraged balance sheets or poorly developed supply chains. We seek experienced and deep management teams with proven histories of successfully navigating varied market conditions. During periods of instability, companies with strong leadership have greater flexibility to take advantage of opportunities and actually improve their competitive positions versus their more poorly-positioned peers. Companies with leading market positions are

better equipped to pass on rising input costs through higher pricing, given the critical roles their products and/or services play with their customers. In cases where companies are experiencing robust, persistent demand, supply chain issues are causing sales and profitability to be "pushed to the right" meaning, while 2021 results may be weaker than originally expected, expectations for 2022 have risen, retaining the long-term opportunities for shareholder returns.

We hope that you and your families have enjoyed a wonderful summer and look forward to updating you on our progress at the end of the year. As always, please do not hesitate to contact us if we can be of service in any way.

Respectfully,

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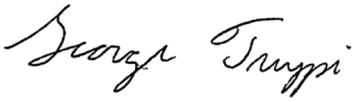

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