January 2019

Dear Advisors and Clients:

The fourth quarter of 2018 proved to be a disappointing quarter for investors as markets in the U.S. and across the globe declined sharply. Ultimately, neither the markets nor Corbyn equity-oriented accounts could hold the hard-fought gains earned earlier in the year and finished 2018 with a loss. A bright spot in all of this was Corbyn's fixed income performance. Our bond strategy reported another positive year, an achievement that, we believe, stands out during a year in which very few asset classes had positive performances.

The major equity indices all reported declines, irrespective of market capitalization or strategy as small, large, value and growth all slumped. Equity performance for the fourth quarter of 2018 ranged from -11.3% for the Dow Jones Industrial Average to -20.2% for the small-cap company-focused Russell 2000. The worst December for stocks since the Great Depression eliminated earlier gains and left the markets with full-year losses ranging from -3.5% for the Dow and -11.0% for the Russell 2000. Fixed income markets were mixed during the quarter with the investment-grade Bloomberg Barclays Aggregate Index up for the quarter, recouping earlier losses and closing the year unchanged, while most other fixed income indices finished 2018 with negative returns.

Equities

The fourth quarter saw a dramatic increase in volatility, as investor reaction to news events and developments in Washington pressured the markets quickly and powerfully. Despite much evidence pointing to a strong economic foundation with most releases of economic data remaining supportive, the narrative about the future changed. Whereas earlier in the year investors were steadfastly positive, as the fourth quarter progressed, concerns about the effects of the escalating trade war, slowing economic growth in China, and the collapse in oil prices - all on a backdrop of a less accommodating Federal Reserve - lit a fuse of fear that the U.S. economy had peaked and that not just slower growth, but possibly a decline in GDP, may loom in the not too distant future.

At Corbyn, our focus remains on the valuation of individual companies. Even though GDP growth in 2019 may not match the pace experienced during 2018, we expect the economy to continue its expansion, allowing our companies to grow earnings at a healthy rate. The all or nothing mentality that has quickly grabbed media headlines does not resonate as loudly with us and we feel that companies capable of producing steady growth will continue to attract investors' attention.

During the fourth quarter, we saw the valuation multiples of companies we own become increasingly more attractive. Share prices for most of our portfolio holdings declined as fear and uncertainty pushed the markets lower. Admittedly, there were a few company missteps but most of our portfolio

holdings reported earnings in-line with expectations and forecasted positive outlooks. Management commentary was encouraging, free cash flow was sound and their prospects remained bright. The stock performance for many of these companies, however, did not reflect these positive reports. Our belief is that, as the current fear in the marketplace subsides, our holdings will not only react positively from a fundamental perspective but also have the opportunity to outperform given the severity of the recent sell-off.

In fact, during the first two weeks of January we have seen a significant recovery in the share prices of many holdings in our portfolios. The investing environment in 2019 has so far been a bit more thoughtful and selective, as investors seem to be making decisions with a more fundamental approach and, at least, a fresh perspective.

Fixed Income

Unlike earlier in 2018, interest rates on U.S. Treasury securities fell during the fourth quarter, while spreads of high yield bonds over Treasuries widened, especially in longer dated bonds. The prices of many of our holdings declined slightly during the quarter, creating opportunities to buy bonds with more attractive yields that will generate better total returns going forward. Despite the fourth quarter decline, Corbyn's fixed income accounts finished the year with positive performance, reflecting the steady gains achieved during the first three quarters and the relatively small decline during the fourth. This stands out versus the Bloomberg Barclays US Aggregate Bond Index which finished the year with flat performance and the US Corporate High Yield Index which finished the year down 2%.

People often find it hard to get excited about bonds because the outcome seems so boringly consistent and there is, admittedly, lots of math. But we get extremely excited about fixed income! Furthermore, the certainty of the returns if the bonds' interest payments and redemptions/maturities are made as expected is a comforting characteristic that is especially welcome during volatile markets. We believe our research process and active portfolio management are designed to produce a steady stream of consistent returns for our clients that differentiates us from most other investment managers.

Currently, we are even more enthusiastic than usual as the recent volatility in the markets has provided us with investment opportunities that we believe are more attractive than they have been in quite some time. As the Federal Reserve transitions from the quantitative easing policy which began in 2008 to a more normalized monetary policy, it will likely add to market volatility. This "unwinding," we believe, will not occur in a straight line but rather in fits and starts as the Fed tries to accurately interpret and anticipate economic data. The volatile landscape that results may cause swings in investor sentiment and spreads creating opportunities for investors prepared for such an environment. Buying undervalued bonds during periods of market weakness has proven to be a rewarding investment strategy during our history. Whereas an undervalued stock can possibly stay undervalued for an unknown period of time, an undervalued bond will generate a return that can be mathematically determined at the time of purchase as long as the company services its debt as required.

With regard to investor sentiment in the broader markets, it is often not the reality of the situation that causes someone to act, but rather the possibility or fear of what might occur. Even though the data and facts tell investors one thing, the "what ifs" drive decisions that may feel satisfying in the short term, but in hindsight could have very negative outcomes for longer-term investment performance.

This is often the most difficult part of being an investment manager. Playing the "long game" and taking the longer-term view when investing in companies. The advent of the internet and social media has only exacerbated the issue. Each and every one of us is exposed to an overwhelming amount of information and varied points of view. The stimulation from this information can be overwhelming in the short run with questionable benefits, if applied to a portfolio of investments, over the longer run.

Volatility grounded in uncertainty, fear and increased speculation lends itself to creating pockets of inefficiency and, therefore, opportunity. The patient investor, who is willing to weather some performance variance, will find that company stock prices ultimately reflect the companies' fundamental outcomes versus short-term investor speculation. Patience, however, is needed because fear can last longer than anticipated.

When we structure the equity portfolios, we take a long-term fundamental approach to security selection with the realization that some level of volatility is inherent in equity investments. When considering our fixed income portfolios, our outlook is shorter in duration with an emphasis on reducing volatility. We offer five different investment strategies that vary in equity exposure, which typically results in different levels of portfolio volatility. If you feel that your investment needs have changed, please contact us so that we can adjust your portfolio to fit your current situation. We believe that communication is critical and we want to fulfill your expectations to the absolute best of our abilities.

We wish each of you a Happy New Year and we look forward to what unfolds in 2019.

Respectfully,

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