Robotti
Value Investors

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February 27, 2018

Dear Client,

For the year of 2017, The Robotti Structured Value Composite (RSV) was up 10.90%[1] versus the benchmark and selection pool, the Russell 2500 Value, which had a total return of 10.36%.

	RSV, net[1]	Russell 2500 Value
2017	**10.90%**	10.36%

Over the course of 2017, it became evident that value and small cap companies lagged in performance when compared to both larger and growth companies. The RSV was invested[2] completely in small and mid-caps, with a heavy bias on small-caps.

Total Returns	S&P 500	Russell 2000	Russell 2500	Russell 2000 Growth	Russell 2500 Growth
2017	21.83%	14.65%	16.81%	22.17%	24.46%

We would have liked to see more outperformance in 2017; however, we understand that having a long-term outlook means that there are times when we will not perform as well as desired. We remain confident in the strategy and are excited about 2018 and beyond.

Recently, I was asked what I would do if the RSV investment style (value/mean reversion) was out of favor and, if so, what changes would I make? I responded by pointing out that not everything works all the time; there will be times when the strategy's style will be out of favor. The key is to stick with what we know and not go to where the grass appears greener at the moment.

We are confident in our approach and are holding steadfast. We realize that there will be times when companies in the portfolio may not perform well, for a variety of reasons. Since we turn much of the portfolio over yearly, we know that any one year may not excel, but over time, we hope to outperform.

Change for 2018

As of early January (when we rebalanced for 2018) we made a change in how we execute the strategy, while staying true to the selection process we have used since inception. This change will restrict the exposure to certain equity sectors, while allowing the RSV portfolio to become more diverse. Historically, the criteria used to screen for companies in the Russell 2500 Value had given the portfolio a heavy concentration in financials and often a higher exposure to Real Estate Investment Trusts (REITS).

We have always said that we would diversify the portfolio if a sector was larger than 50% of the portfolio; however, further testing and thought has given us conviction in limiting the portfolio's exposure to

[1] Composite performance is unaudited and is presented net of fees.
[2] Not including Cash & Equivalents

financials and real estate (especially REITS). We do not object to owning solid companies in the finance space, or in real estate, but want to be more diverse in our approach.

To limit exposure to financials and real estate, we changed the method of how the RSV portfolio is formed. We now run two portfolios, using identical selection criteria, except that one portfolio has all sectors available for possible exposure. The other portfolio is run, without the finance sector and the real estate sector. We then combine these two portfolios, with duplicate names being more heavily weighted, to get the RSV portfolio.

We discussed earlier in this letter that we are holding steadfast in our approach and do not make changes lightly. We are by no means jumping ship, but rather, steering away from potentially turbulent waters. It is not that we do not believe finance and real estate are safe, or good places to invest, but we want to avoid being highly exposed to one or two sectors on a consistent basis. REITS usually pay a high dividend, but this high payout of earnings, tends to equate to limited upside potential. We want more companies that can revert to a more reasonable valuation and therefore have upside potential in price.

Current Portfolio

Top Sectors[3]

Sector	RSV Exposure	Russell 2500 Value Exposure
Consumer Discretionary	25%	11%
Financials	20%	24%
Information Technology	17%	8%

The RSV portfolio has about 10% invested in the Retailing industry group, a subset of the Consumer Discretionary sector. Most of those companies, about 8%, are in brick and mortar retail. The RSV portfolio for 2018 is looking for retail to perform well. Last year, the RSV portfolio had exposure to the homebuilding industry, and that was a good place to be in 2017. We are hoping brick and mortar retail has similar results. It is a contrarian place to be as online retailing appears to be a threat. The companies in the RSV that are brick and mortar retail based look appealing on a valuation basis; almost as though they are not expected to survive.

RSV Brick and Mortar Retail Exposure
with price to earnings (P/E), price to book value (P/B), and return on equity (ROE)[3]

Symbol	Company Name	P/E	P/B	ROE
BBBY	Bed Bath & Beyond Inc.	6.21	1.10	18.63
BGFV	Big 5 Sporting Goods Corporation	7.35	0.76	10.80
GME	GameStop Corp.	5.30	0.80	15.74
GPI	Group 1 Automotive, Inc.	11.51	1.44	14.10
ODP	Office Depot, Inc.	7.39	0.88	12.85

[3] Information presented as of January 3rd, 2018.
The Composite's sector exposures and company valuation metrics are compiled primarily using Capital IQ classifications.

Mean reversion, when applied to equities, is the theory that over time companies will trade/revert to intrinsic value and/or closer to the valuation of the market (we use the Russell 2500 Value as our benchmark and pool and therefore also use this index as our gauge of the market). In other words, companies with low price to earnings and price to book, for example, should trade closer to the valuation of the market over time, unless the company is negatively affected by other factors.

In reality, a company rarely trades for exactly what it is worth. Rather, it tends to get overly discounted and overly exaggerated in price instead. Additionally, the market itself could be overpriced or underpriced. We believe that consistently owning a portfolio that is discounted to the market on valuation, and often stronger on fundamental operating metrics, allows us to profit from the markets' inefficiency in pricing securities.

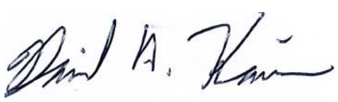
In the case of the brick and mortar retail companies we currently own, our belief is that the market is inefficiently pricing these companies, and therefore, there is potentially upside to the current prices. All these companies are profitable, and most trade near, or below, book value. Additionally, all have higher return on equity than the Russell 2500 Value weighted average. These companies could be over-discounted. Seeing such a low valuation tells us the market believes these companies will either make significantly less money, go out of business, or the market is overly worried about threats. We are hoping the market is focused on threats and has overly discounted the price of these companies.

<u>Valuation and Operating Metrics</u>

The current valuation of the portfolio is significantly lower than the benchmark (on key characteristics such as lower price to earnings and lower price to book) and has strong operating metrics (such as higher return on equity). The portfolio shows the potential to revert upwards towards the benchmark and gives us confidence in our holdings. Therefore, we are near fully invested for Q1 2018.

Thank you for your continued support and please contact us with any questions or comments.

Sincerely,



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